UNIVERSITY OF CALIFORNIA

Medical Centers Report

14/15

By providing that vital intersection of treatment, teaching and research, UC's academic medical centers are taking care of not only their current patients but the future health of California and the world.

UNIVERSITY OF CALIFORNIA

Medical Centers
14/15 Annual Financial Report

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Letter from the Senior Vice President

As public institutions, University of California medical centers are dedicated not only to providing excellent patient care but also to making sure that we serve the needs of Californians.

UC medical centers are playing an important part in increasing access to health care through the federal Affordable Care Act. The law is expanding health insurance coverage to millions of Americans by extending Medicaid coverage and creating health exchanges that offer affordable health insurance options. UC Health proudly participates in California's health insurance exchange, called Covered California.

UC medical centers also serve a significant number of patients in California's Medicaid program, Medi-Cal. At UC and UC-staffed designated public hospitals, 29 percent of hospital admissions are Medi-Cal beneficiaries, compared with 25 percent across their five respective home counties at large.

In the past year, UC medical centers also stepped up during the international Ebola crisis. All five UC medical centers (Davis, Irvine, Los Angeles, San Diego and San Francisco) have been designated as hospitals with Ebola treatment centers, according to the U.S. Centers for Disease Control and Prevention. In addition, UC medical centers were identified by the state as priority hospitals to treat confirmed cases of Ebola, if necessary.

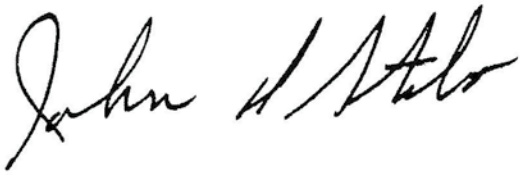
Amid these collaborations, UC medical centers continued to deliver strong financial results. In 2014, the University launched the UC Health's Leveraging Scale for Value initiative in order to reduce costs and improve quality across all five medical centers, saving more than $70 million in its first year. The program aims to save at least $150 million a year for the next five years with UC medical centers working together to increase efficiencies in supply chain, revenue cycle, clinical laboratories and information technology.

UC Health also continues to push the boundaries of innovation and patient care. In February, UCSF Medical Center at Mission Bay opened with a state-of-the-art hospital complex serving women, children and cancer patients. In 2016, Jacobs Medical Center at UC San Diego Health is expected to open.

UC medical centers again were ranked highly by U.S. News & World Report. All five UC medical centers are included among the nation's best hospitals, with two listed among the nation's top 10 hospitals: UCLA (No. 3) and UCSF (No. 8).

UC medical centers also provide vital support for UC's medical schools, which train nearly half of all medical students in California. Overall, UC has the nation's largest health sciences instructional program, with 17 professional schools in seven fields on seven campuses — schools known for their excellence. According to U.S. News, UC has the nation's top-ranked pharmacy (UCSF) and veterinary medicine (UC Davis) programs, No. 2 nursing school (UCSF) and No. 3 medical school for research and primary care (UCSF).

By planning for the future and focusing on our mission of education, research, patient care and public service, UC Health will keep working to advance health in California and beyond.



JOHN D. STOBO
SENIOR VICE PRESIDENT
HEALTH SCIENCES AND SERVICES
UNIVERSITY OF CALIFORNIA

The University of California, Davis Medical Center
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2013. Data for the 12-month period ended December 31, 2013, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Sacramento, Placer, Yolo	83	2,035,973	72.8%	11.5%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	65	510,676	8.5%	5.2%

The University of California, Davis Medical Center

The Davis Medical Center is the principal clinical teaching site for the University of California, Davis, School of Medicine, founded in 1966, and the Betty Irene Moore School of Nursing at UC Davis, established in 2009.

Licensed as a 621-bed general acute care hospital with 32 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 4.9 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at 17 Primary Care Network ("PCN") satellite clinics in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin, Roseville and Sacramento.

The Davis Medical Center serves as a quaternary- and tertiary-care referral hospital for a 33-county 65,000-square-mile service area with a population of 6.2 million. Its services range from heart and vascular surgery to transplant and neurological surgery. It is the only provider of several tertiary/quaternary services between San Francisco and Portland, including Level I adult and pediatric trauma care. It is also home to the region's only nationally ranked comprehensive children's hospital and a National Cancer Institute-designated comprehensive cancer center.

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. UC Davis' Cancer Care Networks are composed of community-based cancer centers in Marysville, Merced, Bakersfield and Truckee. The UC Davis Transplant Center in Fresno expands access to kidney and pancreas transplant care in Central California. The Davis Medical Center's nationally recognized clinical telemedicine, distance education and rural affiliation programs have affiliations with the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners' Hospital for Children — Northern California.

The UC Davis Medical Group, supported by 1,015 faculty and contract physicians and approximately 700 residents and fellows, provides inpatient and outpatient medical services.

Significant events during the year are highlighted below:

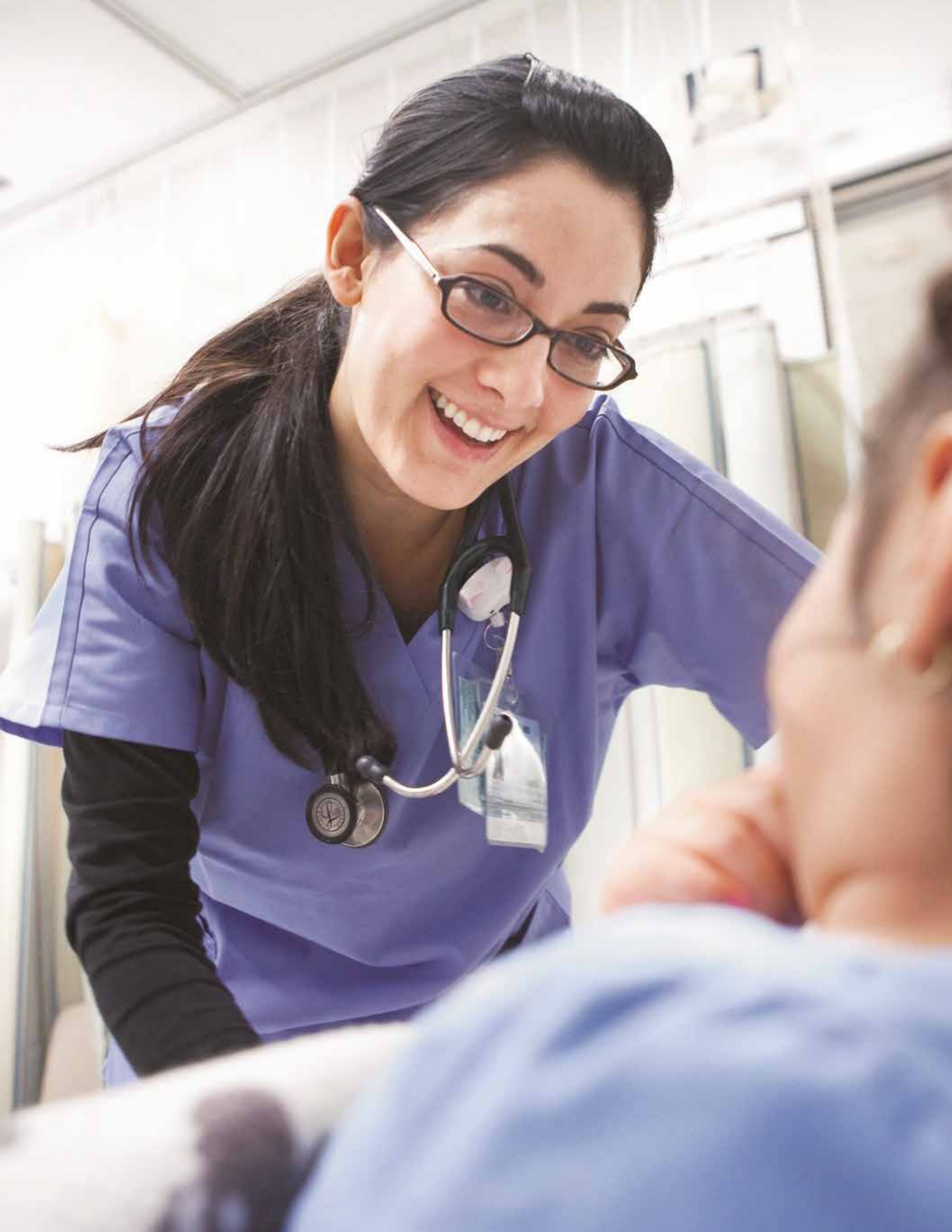
The Davis Medical Center continues to maintain an outstanding local and national reputation

- The Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual U.S. News & World Report "Best Hospitals" 2015-16 survey.

- The Davis Medical Center ranked as one of the nation's best hospitals for 2015-16 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual U.S. News & World Report "Best Hospitals" 2015-16 survey. Less than 3 percent of the nearly 5,000 hospitals that were analyzed for Best Hospitals 2015-16 were nationally ranked in even one specialty.
- U.S. News ranked UC Davis Children's Hospital among the nation's top children's hospitals in five specialties in its 2015-16 rankings. 2015-16 rankings. Together with its longstanding partner Shriners Hospital for Children — Northern California, UC Davis Children's Hospital ranked in orthopaedics and urology. The Davis Medical Center also ranked in neonatology, diabetes and endocrinology and neurology and neurosurgery.
- New U.S. News hospital ratings for five common procedures and conditions released in May 2015 ranked The Davis Medical Center as a high performer for heart-bypass surgery, hip replacements, heart failure and chronic obstructive pulmonary disease (COPD). Only about 10 percent of evaluated U.S. hospitals were rated as high performers for any category or procedure.
- The Davis Medical Center ranked among The Leapfrog Group's list of Top Hospitals for 2014, an elite distinction given for meeting tough national standards for safety and quality. The annual award is widely acknowledged as one of the most competitive awards a U.S. hospital can receive. UC Davis was one of 94 hospitals nationwide to receive it in 2014, the third consecutive year UC Davis placed on the list.
- For the fourth consecutive year, the nation's largest lesbian, gay, bisexual and transgender (LGBT) civil rights organization recognized The Davis Medical Center as a Leader in LGBT Healthcare Equality in 2014 for creating an inclusive and welcoming environment for LGBT patients and employees.
- The UC Davis Health System earned repeated "Most Wired" designation as one of the nation's top health leaders in information technology. The award is based on a national survey conducted by Hospitals & Health Networks magazine.

Regional outreach

UC Davis Health System continues to increase its affiliations with regional health care providers by providing seamless transfer and repatriation processes, supported by electronic health record interoperability, to ensure that patients receive access to tertiary and quaternary services at the Davis Medical Center when needed. Together with our National Cancer Institute-designated Comprehensive Cancer Center, UC Davis Health System now has four regional Cancer Care Networks partners located throughout California that bring advanced cancer care and the latest clinical research to patients in their local communities. Our telehealth program connects more than 40 specialties to more than 100 sites, enabling patients throughout California to receive direct clinical and specialty care without leaving their own communities. Leveraging its leadership in telehealth and using an integrated approach for simulation-based education and distance learning, the program serves as a model for regional population health.



The University of California, Irvine Medical Center
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2013. Data for the 12-month period ended December 31, 2013, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Orange	85	1,720,219	66.6%	8.4%
Secondary	Los Angeles, Riverside, San Bernardino	80	1,459,651	15.6%	2.4%

The University of California, Irvine Medical Center

The Irvine Medical Center serves as the principal clinical teaching site for the University of California, Irvine, School of Medicine. In 1976, the Irvine Medical Center, formerly known as Orange County Hospital, was purchased by The Regents. It is Orange county's only academic medical center encompassing hospital-based and ambulatory patient care services, teaching and clinical research.

The Irvine Medical Center is licensed to provide acute care hospital services in Orange, California, and was licensed to operate 411 beds in year 2015. The Irvine Medical Center serves as a major tertiary referral center for Orange county and is also the region's only Level I Trauma Center and Regional Burn Center. UC Irvine Douglas Hospital meets the state of California's SB 1953, Hospital Facilities Seismic Safety Act.

The Irvine Medical Center has a clinical practice group of over 400 faculty physicians and surgeons. Outpatient services are provided at the main campus pavilion buildings, Chao Family Comprehensive Cancer Center, H.H. Chao Comprehensive Digestive Disease Center (CDDC), Gottschalk Medical Plaza on the Irvine Campus, Orange and Tustin Medical Group clinics, Family Health Centers at Anaheim and Santa Ana clinics, plus many other locations. The two Family Health Centers in Santa Ana and Anaheim are the designated Federally Qualified Health Centers owned and operated by the Irvine Medical Center to serve the underserved population in Orange county.

These sites enable the Irvine Medical Center to provide a full scope of high-quality patient care services and attract the volume and diversity of patients required to support the education and research programs of the School of Medicine. Together, these sites provide increased patient volumes and expanded market share to better serve the community, attract favorable payor mix and generate a stable financial environment.

Significant events during the year are highlighted below:

National recognition

For the 15th consecutive year, U.S. News & World Report has recognized UC Irvine Medical Center as one of "America's Best Hospitals." The annual rankings recognize hospitals that excel in treating the most challenging patients, and this year includes two UC Irvine Health specialties among the top 50 nationally: 39th for ear, nose and throat and 43rd for geriatrics.

UC Irvine Health clinical network expansion

Primary Care Expansion

- Two new community-based primary care sites, located in the cities of Orange and Tustin, were opened in FY 2015 introducing the UC Irvine Health Medical Group. The locations more than double UC Irvine Health's primary care capacity. Combined with the availability of select University Physicians and Surgeons (UPS) specialty offices at the

Tustin campus (see below), the community is able to access UC Irvine Health health care conveniently in a true one-stop location. The Tustin location also offers on-site availability of frequently utilized services such as urgent care, radiology and laboratory services. Walk-in care is also now available at the existing Orange Medical Center campus and at Gottschalk Plaza primary care site, further improving access to primary care services by UC Irvine Health.

Specialty Care Expansion

- In conjunction with the primary care services available at Tustin, more than 10 different UPS specialties opened practices at the Tustin location to serve the greater Tustin, Irvine and Santa Ana communities. A broad range of specialty services are available including Cardiology, OB/GYN, Rheumatology, Endocrinology, Pain Management and Dermatology.
- UC Irvine Health also expanded its specialty care services in the coastal region at the Pacific Medical Plaza. Notable openings in FY 2015 include the UC Irvine Health Cancer Center (including Medical Oncology and infusion) and Digestive Disease Center which complement existing Neurosurgery, Orthopaedic, Women's Health, Plastic Surgery and the Pacific Breast Center located in the building.
- To expand its clinical network into the Inland Empire, UC Irvine Health entered into an affiliation with Corona Regional Medical Center to expand and enhance clinical care in the region. In FY 2015, UC Irvine Health Neurologists implemented a tele-stroke program in conjunction with Corona Regional Medical Center, which significantly improves the care for stroke patients in the greater Corona community. The affiliation also includes plans to create a perinatal services program in Corona, building on Corona Regional's obstetrical and gynecological program and UC Irvine Health's expertise in managing high-risk pregnancies. Through this affiliation, UC Irvine Health and Corona Regional Medical Center will also jointly open a new, state-of-the-art cancer center that will provide comprehensive services, including infusion chemotherapy and radiation therapy.

Major hospital projects

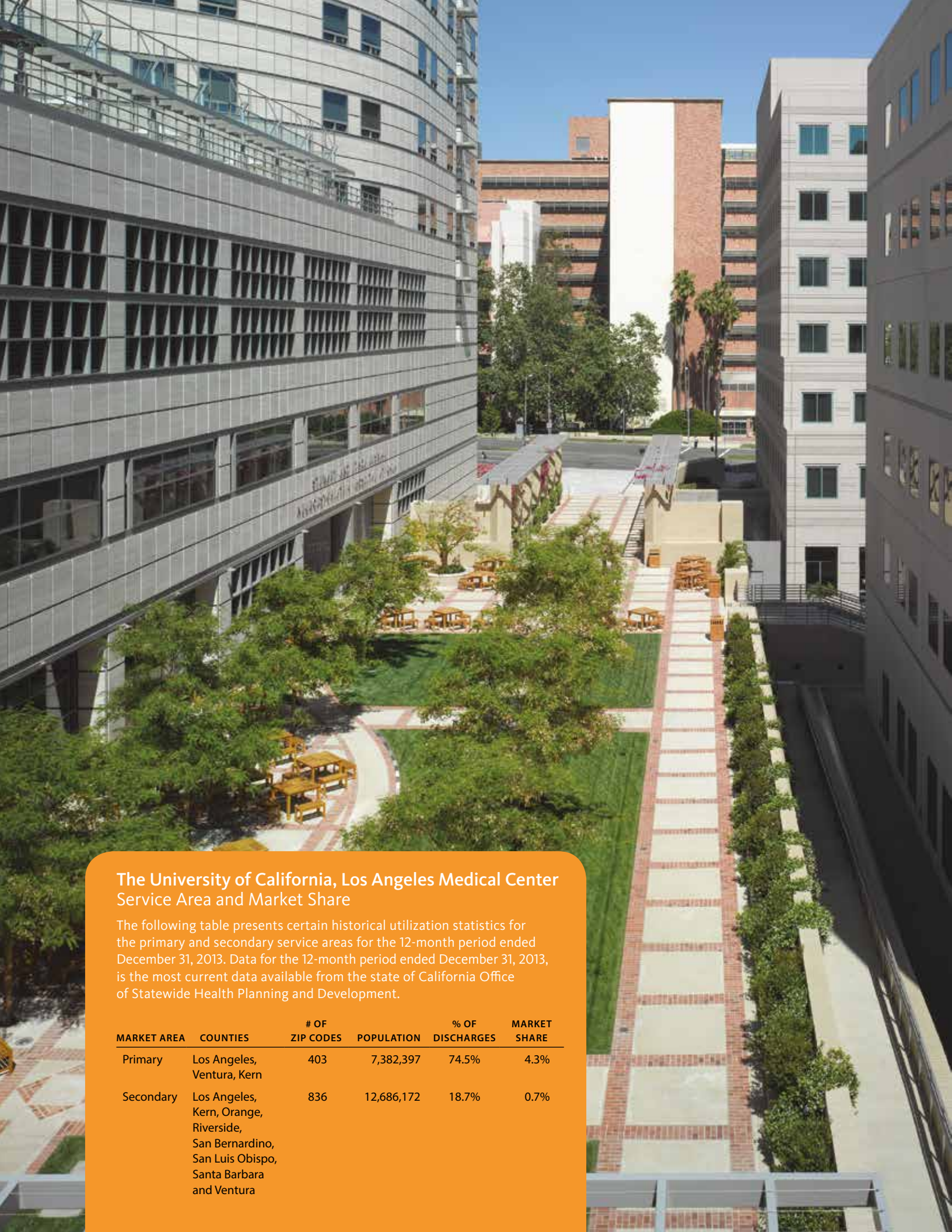
- A Facility Master Plan (FMP) has been prepared to guide development at the Medical Center over the next 10 years. There are several potential projects identified in FMP that are currently being evaluated and prioritized. The FMP is consistent with the 2003 Long Range Development Plan (LRDP) and responds to the changing health care environment as it relates to enhancing the patient experience and establishment of a new model of care for ambulatory services.
- The renovation of the H.H. Chao Comprehensive Digestive Disease Center has begun. The project will result in renovation of the first and second floor of the building and an expansion of all three floors totaling 14,100 square feet. A new elevator and exterior stairs are included to serve the expanded space. The project will provide a new entrance, waiting area, six interventional procedure rooms, nine additional exam rooms and a conference room. The CDDC is a regional leader in the delivery of interventional endoscopy treatments and diagnostic screening services for patients with a variety of digestive disorders. The anticipated completion date for this project is summer 2017.
- The Medical Center is nearing completion of a 1.4 megawatt (MW) fuel cell power plant that will generate approximately 25 percent of the facility's power needs. Heat produced by the plant will be captured and used in a direct exhaust absorption chiller producing 200 tons of cooling for Douglas Hospital. The project was conceived and delivered in coordination with Dr. Scott Samuelsen, Director of the National Fuel Cell Research Center at UCI. The project will result in enhanced power reliability, reduce dependence on costly and inefficient power transmission, and support UC mandates relating to the reduction of the Medical Center's carbon footprint.

QUEST (Quality, Excellence and Safety through Technology)

QUEST is a multi-year project, started in 2009, that will integrate nearly all of UC Irvine Health's clinical information systems. During 2015, Information Systems (IS) had implemented the following projects:

- Integration of applications and solutions with the Electronic Medical Record (EMR)
- Implementation of the EMR for additional practices
- Preparation for compliance to International Statistical Classification of Diseases and Related Health Problems (ICD) 10 requirements beginning October 1, 2015
- Focus on upgrade of both infrastructure and applications to meet the needs of UCI Health
- Develop clinical informatics tools for improved patient care
- Enhance the privacy and security of UCI Health's IS environment

These activities position the Medical Center and Ambulatory Practices to deliver world-class health care to our patient population.



The University of California, Los Angeles Medical Center
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2013. Data for the 12-month period ended December 31, 2013, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	403	7,382,397	74.5%	4.3%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura	836	12,686,172	18.7%	0.7%

The University of California, Los Angeles Medical Center

The UCLA Medical Center is the hospital component of the UCLA Health System, which also includes the UCLA Faculty Practice Group (FPG). The FPG is comprised of more than 1,200 full-time clinical faculty physicians, who are responsible for the clinical care of UCLA Health System patients.

The UCLA Medical Center operates licensed-bed facilities at the 466-bed Ronald Reagan UCLA Medical Center located in Westwood, the 265-bed Santa Monica-UCLA Medical Center and Orthopaedic Hospital located in Santa Monica, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA located in Westwood. The financial statements also include the activities of the UCLA Tiverton House, a 100-room hotel facility for patients and their families.

The UCLA Medical Center serves as the principal teaching site for the David Geffen School of Medicine at UCLA. The UCLA Medical Center's mission is to provide leading-edge patient care in support of the educational and scientific programs of the schools of the UCLA Center for the Health Sciences, including the Schools of Medicine, Dentistry, Nursing and Public Health.

The UCLA Medical Center's Westwood campus opened in 1955 as a 320-bed hospital and expanded to 669 beds by 1967. On June 29, 2008, the construction of the Ronald Reagan 466-bed and Resnick Neuropsychiatric 74-bed state-of-the-art replacement hospital was completed and opened for patient care. The replacement hospital meets the state of California's SB 1953, Hospital Facilities Seismic Safety Act.

The UCLA Medical Center offers patients of all ages comprehensive care, from routine to highly specialized medical and surgical treatment. In addition, the Westwood campus is known for its wide range of tertiary/quaternary care offerings that include Level I trauma care, regional neonatal and pediatric intensive care units, neurosurgery/neurology and organ transplantation.

The Santa Monica-UCLA Medical Center and Orthopaedic Hospital also serves the University's teaching and research missions while meeting the health care needs of Los Angeles' west side community. The Santa Monica facility features several nationally recognized clinical programs located within its 7-acre campus.

The Resnick Neuropsychiatric Hospital at UCLA is one of the leading centers for comprehensive patient care, research and education in the fields of mental and developmental disabilities. Located on the Westwood campus, the hospital offers a full range of treatment options for patients needing inpatient, outpatient or partial-day services.

Together, these sites enable the UCLA Medical Center to provide a full spectrum of services and attract the volume and diversity of patients necessary to meet its educational, clinical, research and community services missions.

Significant events during the year are highlighted below:

The UCLA Medical Center continues to maintain its outstanding national reputation

- The UCLA Medical Center's hospitals in Westwood and Santa Monica were named to U.S. News & World Report's most exclusive rankings list: the Best Hospitals 2015–16 Honor Roll. The UCLA Medical Center tied for No. 3 in the country. According to this latest survey, UCLA Medical Center ranked in 15 specialty areas including: cancer at UCLA's Jonsson Comprehensive Cancer Center (tied for No. 6 nationally); cardiology and heart surgery (12); diabetes and endocrinology (12); ear, nose and throat (tied for 9); gastroenterology and gastrointestinal surgery (4); geriatrics (2); gynecology (8); nephrology (7); neurology and neurosurgery (7); ophthalmology at Stein and Doheny Eye Institutes (5); orthopaedics (8); psychiatry at the Resnick Neuropsychiatric Hospital at UCLA (7); pulmonology (9); rheumatology (7); and urology (3).
- Ronald Reagan UCLA Medical Center has been named to Becker's Hospital Review as one of the "100 hospitals with great neurosurgery and spine programs."
- Mattel Children's Hospital UCLA has been recognized as one of the nation's best pediatric hospitals by U.S. News & World Report and is among a select group of hospitals to be ranked in all 10 of the specialty areas reviewed in the magazine's 2014-15 "Best Children's Hospitals" survey.
- UCLA Medical Center achieved acknowledgement for being among the "Most Wired" health systems in the country for the third consecutive year in a survey by Hospitals and Health Networks magazine.
- The David Geffen School of Medicine at UCLA (DGSOM) ranks No. 7 in the nation among best medical schools for primary care in the U.S. News & World Report 2016 annual survey of the best graduate schools in the United States. In the overall ranking of the nation's best medical schools for research, DGSOM ranks No. 13. In addition, DGSOM receives high marks in other specialty training programs, including No. 8 in AIDS and No. 3 in geriatrics.
- UCLA Health System was recognized as one of the "Leaders in LGBT Healthcare Equality" by the Human Rights Campaign (HRC) Foundation, the educational arm of the country's largest lesbian, gay, bisexual and transgender civil rights organization. The findings were part of HRC Foundation's Healthcare Equality Index 2014, a unique annual survey that encourages equal care for LGBT Americans, and recognizes health care institutions doing the best work.
- Ronald Reagan UCLA Medical Center has received the American Heart Association's Get With The Guidelines — Heart Failure Gold-Plus Quality Achievement Award. The award recognizes the hospital's work implementing quality improvement measures outlined by the American Heart Association/American College of Cardiology Foundation guidelines for heart failure patients.
- UCLA earned the Gold-Plus Quality Achievement Award from Get With The Guidelines - Stroke for measures that include aggressive use of medications and risk-reduction therapies aimed at reducing death and disability and improving the lives of stroke patients. UCLA also received the association's Target: Stroke Honor Roll for meeting stroke quality measures that reduce the time between hospital arrival and treatment with the clot-buster tPA, the only drug approved by the U.S. Food and Drug Administration to treat ischemic stroke.

UCLA Medical Center continues to work on strategic initiatives

During this fiscal year, UCLA Medical Center continues to supporting the multifaceted strategic plan of UCLA Health System. UCLA Health System's activities are focused on increasing tertiary and quaternary care delivery, securing secondary care partners and creating a robust health care delivery platform for managing all aspects of health care delivery. These activities are related to a carefully orchestrated clinical growth strategy that advances the depth, scope and reach of UCLA Health System, promotes increased market presence, rationalizes care by better utilizing lower-cost clinical settings, secures alignments that fuel additional clinical growth and provides partners with access to a large and vibrant academic community. As UCLA Health System increases its footprint and reach, the Westwood campus' tertiary/quaternary focus will remain a core strength that will maintain UCLA Medical Center's viability and prominence in the future. Additionally, UCLA Health System is securing primary care capacity at strategically located sites and access to a convenient, user-friendly acute care site.

The University of California, San Diego Medical Center
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2013. Data for the 12-month period ended December 31, 2013, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,388,000	55.6%	14.4%
Secondary	San Diego	95	1,762,000	29.6%	5.5%

The University of California, San Diego Medical Center

UC San Diego Health currently maintains a two-campus strategy, integrating research, teaching and clinical care at locations in Hillcrest and La Jolla. Each medical complex supports acute in-patient care and a spectrum of outpatient primary and specialty medical and surgical services, including ambulatory and emergency patient care.

Its three hospitals operate under one license with a current combined capacity of 563 beds: UC San Diego Medical Center in Hillcrest (390 beds), Thornton Hospital in La Jolla (119 beds) and Sulpizio Cardiovascular Center in La Jolla (54 beds). The completion of Jacobs Medical Center, which is contiguous with Thornton Hospital, will add another 245 licensed beds.

UC San Diego Medical Center in Hillcrest, established in 1966, currently serves as the principal clinical teaching site for UC San Diego School of Medicine and the focal point for community service missions. It houses several specialty care centers that allow the urban campus to serve as a major tertiary and quaternary referral center for San Diego, Riverside and Imperial counties. These care centers include the area's only Regional Burn Center, a Comprehensive Stroke Center, a Level III Neonatal Intensive Care Unit and one of only two Level I Trauma Centers in the county. The campus is also home to the Owen Clinic, among the nation's top HIV care programs.

The La Jolla campus, located on the eastern portion of the main university campus, is home to Thornton Hospital, a general medical and surgical facility that opened in 1993, and Moores Cancer Center, the primary site for outpatient oncology care and the region's only National Cancer Institute-designated Comprehensive Cancer Care Center, with nearly 350 medical and radiation oncologists, surgeons and researchers. The La Jolla campus also includes Shiley Eye Institute, a multi-specialty vision center with the region's only facility dedicated to children, as well as Sulpizio Cardiovascular Center, the region's first comprehensive cardiovascular center and the global leader in pulmonary thromboendarterectomy (PTE), an operation for removing blood clots from the pulmonary arteries to treat chronic pulmonary hypertension. The PTE operation was first performed at UC San Diego Health and is now systematically employed at select health care centers around the world.

Ambulatory care is provided at both campuses, as well as in the surrounding communities of Chula Vista, Encinitas, Kearny Mesa, Scripps Ranch and Vista.

As the region's only academic health system, these combined sites enable UC San Diego Health to provide a continuum of care and attract the volume and diversity of patients needed to fulfill its tripartite mission of clinical, research and education excellence.

UC San Diego Health continues to maintain an outstanding local and national reputation

U.S. News & World Report named UC San Diego Health the #1 health care system in San Diego in 2015, a distinction it has earned every year since the publication began metropolitan rankings in 2011.

U.S. News & World Report also awarded UC San Diego Health top national rankings in 12 of 16 adult medical and surgical specialties in 2015. Specialties ranking in the top 50 nationally included: cancer (#23); cardiology and heart surgery (#24); diabetes and endocrinology (#31); ear, nose & throat (#33); gastroenterology & GI surgery (#24); geriatrics (#18); gynecology (#44); nephrology (#20); neurology & neurosurgery (#22); orthopaedics (#31); pulmonology (#6) and urology (#25). Less than 3 percent of the nearly 5,000 hospitals analyzed for the annual "Best Hospitals" report were nationally ranked in even one specialty. UC San Diego Health has doubled its number of specialty rankings since 2011.

Truven Health Analytics named UC San Diego Health one of the nation's "100 Top Hospitals" in 2015, in recognition of its ability to deliver the highest level of value to its communities, as determined from analyses of public hospital care and management data for nearly 3,000 hospitals.

UC San Diego Health continued to earn straight A's for hospital safety from the Leapfrog Group in 2015 — a distinction earned every year since the Hospital Safety Score launched in 2012. UC San Diego Health was also named a "Top Hospital" by the independent group in 2014 — a recognition bestowed upon less than 7 percent of all eligible hospitals.

Healthgrades awarded UC San Diego Health a "Distinguished Hospital Award for Clinical Excellence" in 2014, ranking it among the top 5 percent of U.S. hospitals delivering superior care to the Medicare population as measured by objective clinical outcomes.

UC San Diego Health maintains its Magnet hospital status from the American Nurses Credentialing Center, considered among the highest recognitions for nursing excellence, initially awarded in 2011.

In 2015, UC San Diego Health was one of only six health systems in the nation recognized as "most wired-advanced" by Hospitals & Health Networks, a publication of the American Hospital Association. It is the only health system in California to hold this "best of the best" distinction. The award recognizes institutions that are the most effective in using their information technologies to improve value-based health care performance in the areas of quality and safety, clinical integration, infrastructure, and business and administrative management. UC San Diego Health has been named among the nation's "most wired" hospitals for ten consecutive years.

UC San Diego Health also stands apart in its transition to entirely paperless medical recordkeeping and has earned the Health Information and Management Systems Society (HIMSS) Analytics Stage 7 award, the highest given, for its adoption of electronic medical recordkeeping technologies. Only about 2 percent of the nation's hospitals in 2014 were at this stage of sharing, information exchange and immediate delivery of patient data to improve process performance, quality of care and safety.

Construction continues on Jacobs Medical Center and Altman Clinical and Translational Research Institute

UC San Diego Health is in the midst of a historic expansion to redefine the standard of care in San Diego and accelerate "bench-to-bedside" translational research. The rapid application of new discoveries from the research "bench" for the treatment of patients at the clinical "bedside" is the goal of translational research.

The clinical centerpiece of this expansion is the 509,500-square-foot, 245-bed Jacobs Medical Center, projected to open in 2016. The 10-story advanced medical center will offer inpatient specialty care for persons requiring complex surgical procedures, complex oncology treatments and high-risk obstetric and neonatal care. Among the facility's highlights are an intraoperative imaging suite with a dedicated MRI machine and CT scanner for the most complex brain and spine surgeries; a Level III Neonatal Intensive Care Unit with 52 private rooms for neonates and a full-floor air filtration and pressurization system that enables blood and marrow transplant recipients, as well as immunocompromised patients receiving investigational stem cell therapies, to leave their room during potentially lengthy stays. The completion of Jacobs Medical Center will nearly double UC San Diego Health's capacity to offer inpatient care to individuals with all types of malignancies, complementing outpatient services at Moores Cancer Center.

The scope of the $859-million (2014 estimate) project includes construction of a separate 40,000-square-foot Medical Center Central Plant (completed in 2014 with LEED Gold® certification); a 70,000-square-foot renovation of Thornton Hospital to expand and integrate ancillary departments, and the construction of a helistop on the roof of Jacobs Medical Center to position the La Jolla campus as a major national referral center.

Rounding out the current expansion of the La Jolla campus is the School of Medicine's seven-story, 359,000-square-foot Altman Clinical and Translational Research Institute, also slated for completion in 2016. The $269 million (2013 estimate) facility is adjacent to Jacobs Medical Center and establishes the physical space, biomedical infrastructure, support staff and personnel that will make it possible for researchers and clinicians to work side-by-side to deliver new drugs, technologies and procedures to patients who need them most.

The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2013. Data for the 12-month period ended December 31, 2013, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco, Alameda, Contra Costa and San Mateo	149	4,184,000	61.8%	7.3%
Secondary	Marin, Napa, Santa Clara, Solano and Sonoma	138	3,068,000	14.4%	2.4%

The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland*

The UCSF Medical Center is a part of UCSF Health which also includes the UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospital and Clinics and UCSF Benioff Children's Hospital Oakland (BCHO).

UCSF Medical Center

UCSF Medical Center serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873. UCSF Medical Center is licensed to provide inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus, at UCSF Mount Zion and at Benioff Children's Hospital in San Francisco's Mission Bay neighborhood. UCSF Medical Center also provides outpatient hospital care at the three hospital sites and physician clinical care at those hospitals and other locations primarily in San Francisco. It also has a national cancer institute designated as a National Comprehensive Cancer Network Member Institution. The UCSF Medical Center in San Francisco is licensed to operate 1,009 beds.

UCSF Medical Center's financial statements also include the activities of the UCSF Faculty Practices — the faculty practice organization for the more than 1,100 UCSF faculty physicians. The net revenues from clinical practices are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses. Payments to the faculty for their professional services are classified as purchased services.

UCSF Benioff Children's Hospitals

The Moffitt-Long Hospital includes UCSF Benioff Children's Hospital, a "hospital within a hospital" with more than 150 pediatric specialists practicing in more than 50 areas of medicine. Effective February 1, 2015, UCSF Benioff Children's Hospital San Francisco relocated to the newly completed Mission Bay facility.

Effective January 1, 2014, UCSF Medical Center affiliated with Children's Hospital & Research Center Oakland (CHRCO) and the University of California became its sole corporate and voting member. Now known and doing business as UCSF Benioff Children's Hospital Oakland, the 102-year-old hospital retains its status as a private, not-for-profit 501(c)(3) medical center, offering children and their families outstanding medical, surgical and mental health care.

The hospital is one of only five ACS Pediatric Level I Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California. UCSF BCHO has 190 licensed beds, more than 500 physicians in 43 specialties and more than 2,600 employees.

BCHO is a leading teaching hospital with an outstanding pediatric residency program and a number of unique pediatric subspecialty fellowship programs. BCHO's research division, Children's Hospital Oakland Research Institute (CHORI), is internationally known for its basic and clinical research.

**CHRCO is a discretely presented component unit of the University of California.*

The affiliation between UCSF Medical Center and CHRCO referred to above improves the ability to advance pediatric care as well as enhance the research and educational missions of both organizations. A significant media campaign was continued from the prior year to raise public awareness and promote the benefits that this affiliation brings to the broader community.

Significant events during the year are highlighted below:

UCSF Health continues to focus on strategic initiatives and network expansion to meet its mission and community needs

- UCSF Medical Center completed the first year of implementing its Health System Strategic Plan designed to foster clinical growth and to advance additional strategic alignments with other providers. Included in the strategic plan are the following initiatives:
  - A continued pursuit of excellent specialty medicine focused on streamlining access to services and coordination of care
  - Creating a high value system of care for regional populations of patients through a new Accountable Care Organization (ACO) network
  - Expansion of regional tertiary care services and other destination programs
  - Continued implementation of a culture of continuous process improvement
- Construction was completed on the UCSF Mission Bay Hospital and opened for patients in February, 2015. The Mission Bay facility includes a 289-bed inpatient building for Children's, Women's and Cancer hospitals, an outpatient building with a helipad, and an energy center. The new facility, totaling 878,000 square feet, was awarded a LEED Gold® certification in recognition of the environmental standards used in its construction.
- BCHO opened a multi-specialty clinic at San Ramon's Bishop Ranch Medical Center. The clinic offers a variety of specialized pediatric medical care including cardiology, nutrition, developmental and behavioral pediatrics, endocrinology, ENT/otolaryngology, gastroenterology, nephrology, neurology, psychiatry, pulmonary, surgery, orthopaedics, the Sports Medicine Center for Young Athletes and a concussion clinic in the 5,000-square-foot facility.
- The BCHO Master Plan Phase I plan documents were approved by the Oakland City Council during 2015. The Master Plan Phase 1 plan comprises building a Center for Advanced Outpatient Care, reorienting the Oakland campus into distinct inpatient and outpatient zones, renovating critical care and surgical units, and addressing California seismic compliance standards.
- UCSF Medical Center entered into a partnership with John Muir Health, a major community hospital system in the Bay Area, to develop a regional accountable care model to work with health plans to improve access and enhance the delivery model for patient care.

UCSF Health continues to maintain an outstanding local and national reputation

- In 2015-16, U.S. News & World Report ranked the UCSF School of Medicine third nationally for its primary care training and its research training — the only medical school in the country ranked in the top five in both categories. The survey also ranked UCSF Medical Center as the eighth best hospital in the country.
- UCSF Medical Center is a Magnet hospital as designated by the American Nurses Credentialing Center (ANCC). It is one of only 401 Magnet hospitals worldwide to receive this status which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.
- UCSF Medical Center was named one of HealthCare's Most Wired hospitals in 2015 by the American Hospital Association and the College of Healthcare Information Management Executives in recognition of the focus on security and patient engagement through information technology.
- UCSF Medical Center became the only institution in the country to receive a perfect score on the national LGBT Healthcare Equality Index (HEI) for six consecutive years. The HEI annually invites health care facilities nationwide to complete a survey describing how they provide equitable, inclusive care for lesbian, gay, bisexual and transgender (LGBT) patients and their families.
- Patient satisfaction scores continued to increase over the previous year and exceeded annual targets established at the beginning of the year.

UCSF Health: commitment to the community

- UCSF Medical Center collaborated with the San Francisco Department of Public Health and other health and social service agencies to develop a community health needs assessment report in 2014 to identify key health priorities in its primary service area. These priorities are important components in the Health System Strategic Plan mentioned above and are included in future goals for UCSF Medical Center.
- The newly created Center for Community Health and Engagement (CCHE) aims to demonstrate how a children's hospital such as BCHO can reach beyond the traditional medical model to address the social determinants of health by bridging pediatric health care policy with community needs. The Center will support the hospitals existing community benefit programs and work with organizations on five focus areas: government affairs and policy, community relations, training and education, grants and program development and research.
- Hillary Clinton visited BCHO twice during the year focusing on the Too Small to Fail campaign that encourages parents to talk, read and sign to their infants and toddlers as a key precursor to literacy.
- UCSF Health provided more than $140 million in uncompensated or undercompensated care in 2015.
- UCSF Health is self-supporting and uses its margins to meet important needs in the community, including training physicians and other health professionals, supporting medical research, providing care to the medically and financially needy, and building and operating facilities to serve the diverse needs of patients.
- Though UCSF Medical Center and BCHO are known and respected widely, their primary commitment is providing leading-edge health care services to the people of the San Francisco Bay Area and communities throughout Northern California. A patient- and family-centered approach is at the center of everything the organization does and maximizing the patient experience is a top priority.

Management's Discussion and Analysis *(Unaudited)*

INTRODUCTION

The objective of Management's Discussion and Analysis is to help readers better understand the UC Medical Centers' and CHRCO's financial position and operating activities for the year ended June 30, 2015, with selected comparative information for the years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2013, 2014, 2015 etc.) in this discussion refer to the fiscal years ended June 30.

OVERVIEW

The University of California, Medical Centers (the "Medical Centers") are part of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"), each of which provides educational and clinical opportunities for students in the University's Schools of Medicine ("Schools of Medicine") and offers a comprehensive array of medical services including tertiary and quaternary care services. The financial statements also include Children's Hospital & Research Center Oakland ("CHRCO"), a component unit of the University of California. The Regents are the sole corporate and voting member of CHRCO, a private, not-for-profit 501(c)(3) corporation. San Francisco provides certain management services for CHRCO.

The Medical Centers' activities are monitored by The Regents' Committee on Health Services. Under the formation documents of the University of California, administrative authority with respect to the Medical Centers is vested in the President of the University, who, in turn, has delegated certain authority to the Chancellor of the applicable campus. At each applicable campus, direct management authority has been further delegated by the applicable Chancellor as follows: for the UC Davis Medical Center, the UC Irvine Medical Center, the UCSD Medical Center and the UCSF Medical Center, to the applicable Medical Center Director, and for the UCLA Medical Center, to the Vice Chancellor, Medical Sciences.

OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers and CHRCO:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Licensed beds							
2015	621	411	805	563	1,076	190	3,666
2014	619	411	805	563	720	190	3,308
2013	619	411	806	565	720	190	3,311
Admissions							
2015	32,292	20,226	42,345	28,185	31,119	10,815	164,982
2014	30,471	19,287	42,142	27,650	29,230	10,001	158,781
2013	30,200	19,312	41,335	27,674	28,530	10,342	157,393
Average daily census							
2015	483	317	738	451	535	140	2,664
2014	473	295	733	446	495	132	2,574
2013	466	301	731	427	487	134	2,546
Discharges							
2015	32,222	20,234	42,303	28,043	31,074	10,833	164,709
2014	30,736	19,311	42,117	27,899	29,160	9,913	159,136
2013	30,326	19,401	40,997	26,988	28,484	10,345	156,541
Average length of stay							
2015	5.4	5.7	6.4	5.9	6.3	4.7	5.9
2014	5.7	5.6	6.4	5.8	6.2	4.9	5.9
2013	5.6	5.7	6.5	5.8	6.2	4.7	5.9
Patient days							
2015	176,180	115,793	269,368	164,526	195,241	51,110	972,218
2014	172,756	107,782	267,506	162,651	180,520	48,215	939,430
2013	170,241	109,921	266,976	155,797	177,646	48,766	929,347
Case mix index[1]							
2015	1.73	1.77	1.88	1.82	2.07	1.26	
2014	1.67	1.77	1.95	1.69	2.04	1.30	
2013	1.67	1.72	1.96	1.64	2.03	1.26	
Outpatient visits							
2015	1,005,292	656,423	766,640	710,398	1,097,185	263,585	4,499,523
2014	995,987	592,526	706,325	655,921	963,692	234,697	4,149,148
2013	922,085	561,021	720,536	661,544	899,218	236,392	4,000,796

[1]*Case mix index is calculated at the patient level and is not determinable systemwide.*

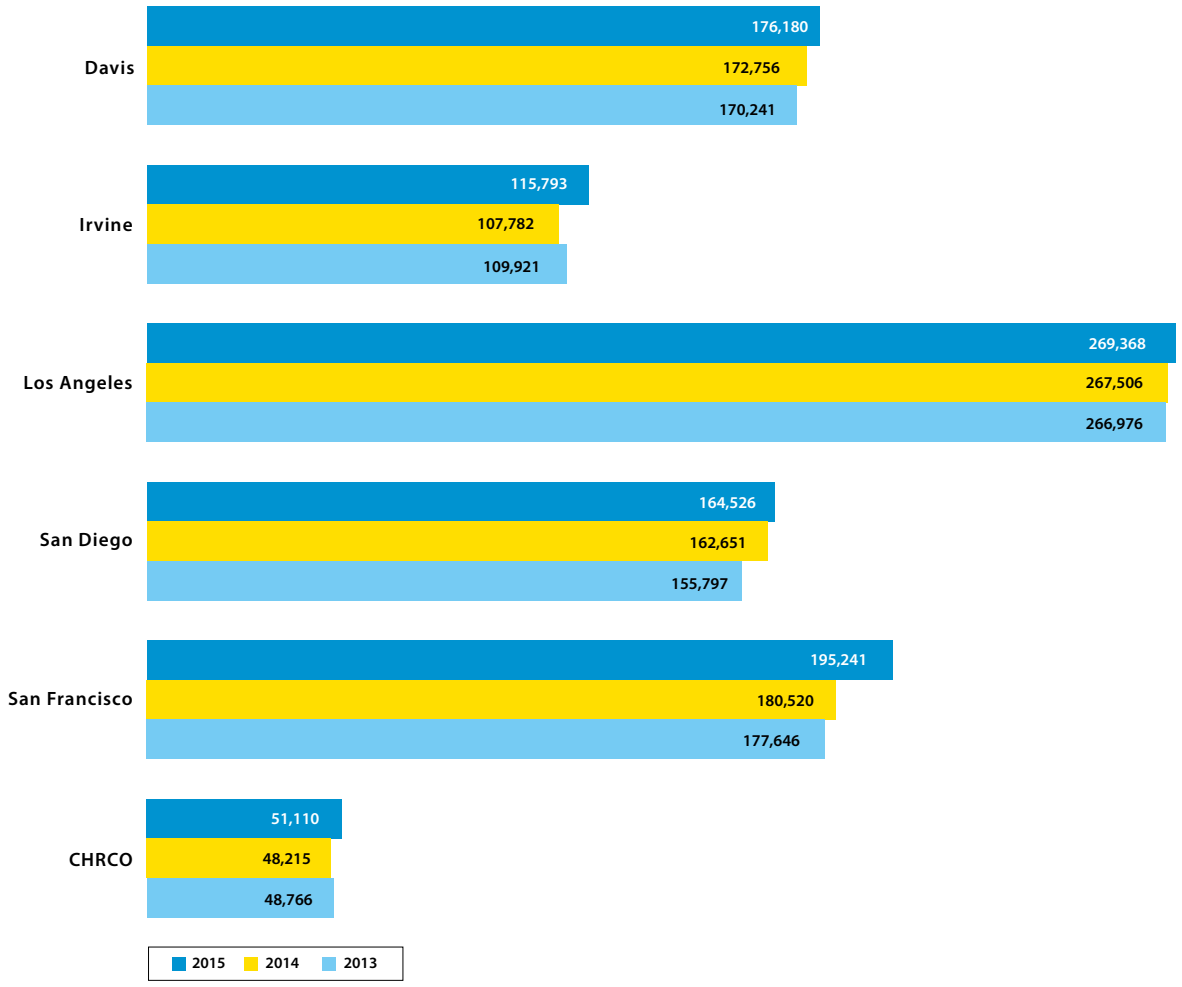
Licensed Beds

Licensed beds changed as follows:

Increased (decreased)	**2015**	**2014**	
Davis	2		Increased to meet operational needs.
Los Angeles		(1)	Reduced one licensed bed as part of annual licensing with the state in 2014.
San Diego		(2)	There was no change in licensed beds in 2015. In 2014, two medical surgical beds were delicensed at the Hillcrest location, one was used for storage and the other was not needed.
San Francisco	356		Licensed beds increased due to the opening of the Mission Bay hospital in February 2015.

Admissions and Patient Days

Admissions fluctuate based upon the Medical Centers' and CHRCO's market share and overall volumes in the marketplace. Patient days fluctuate based on admissions and the overall length of stay, generally as a result of the complexity of care provided. Patient days for each Medical Center are as follows:



Admissions and patient days changed in 2015 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	1,821	6.0%	3,424	2.0%	Admissions and patient days have increased due to an increase in the acuity of patients being seen in the emergency room requiring admission.
Irvine	939	4.9%	8,011	7.4%	Higher patient days due to increase in psychiatric services.
Los Angeles	203	0.5%	1,862	0.7%	Growth in Medi-Cal patient days.
San Diego	535	1.9%	1,875	1.2%	The growth in admissions and patient days reflects admissions resulting from an increase in emergency room visits.
San Francisco	1,889	6.5%	14,721	8.2%	Admissions and patient days increased due to the opening of the Mission Bay hospital in February 2015.
CHRCO	814	8.1%	2,895	6.0%	Admissions and patient days increased due to higher utilization of tertiary services and increased volume of respiratory cases.

Admissions and patient days changed in 2014 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	271	0.9%	2,515	1.5%	Admissions and patient days increased due to growth in pediatric services.
Irvine	(25)	(0.1%)	(2,139)	(1.9%)	Modest decrease in intensive care.
Los Angeles	807	2.0%	530	0.2%	Higher inpatient volume and higher contract patient days.
San Diego	(24)	(0.1%)	6,854	4.4%	Higher days due to a small increase in length of stay.
San Francisco	700	2.5%	2,874	1.6%	Higher inpatient volume due to growth of children's programs.
CHRCO	(341)	(3.3%)	(551)	(1.1%)	Reduced patient demand offset by increased acuity.

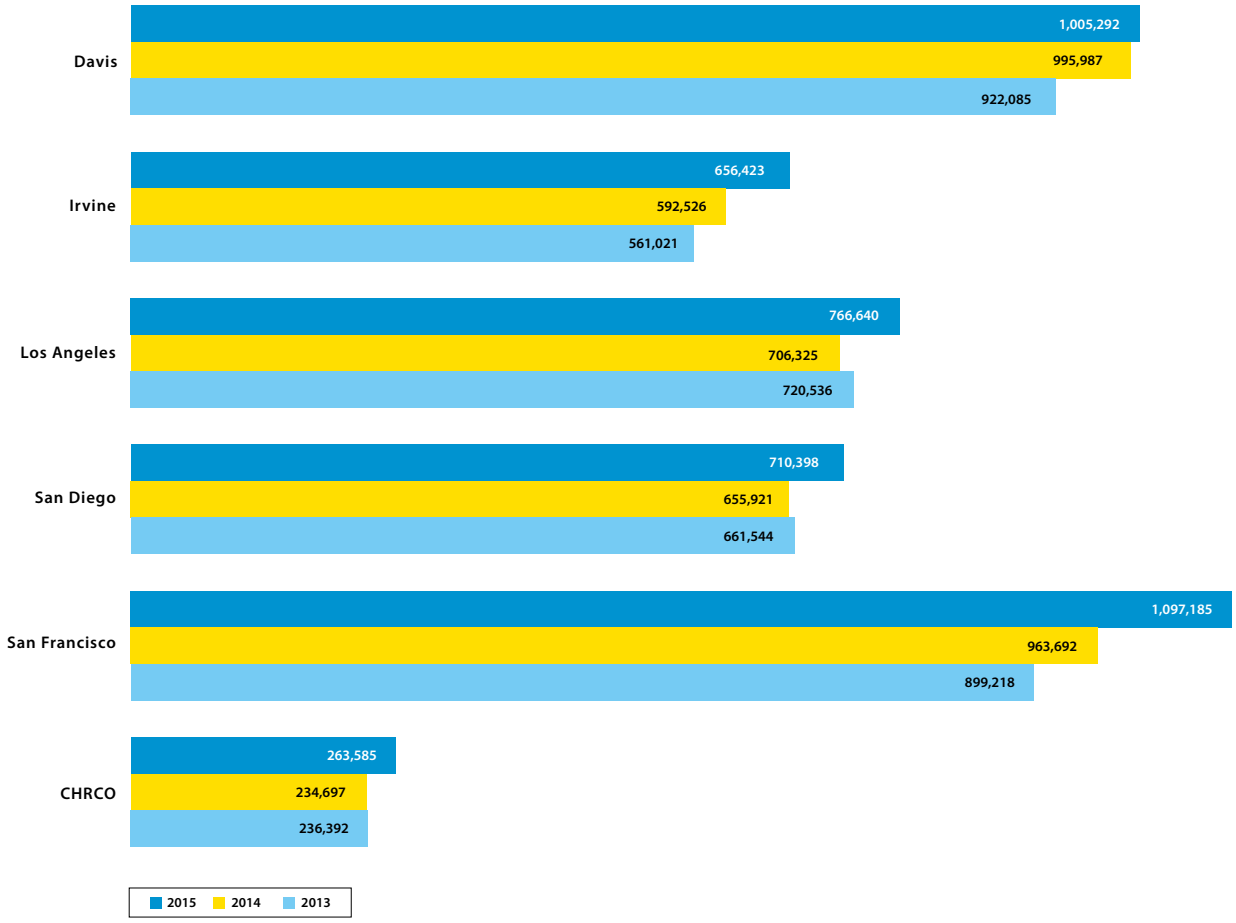
Outpatient Visits

Outpatient services are provided by the Medical Centers and CHRCO and include clinic visits, primary care network, home health and hospice and emergency visits. The following presents outpatient services volume for the Medical Centers and CHRCO:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015							
Hospital clinics	445,872	595,299	693,355	636,118	1,028,329	213,470	3,612,443
Primary care network	480,050	12,709					492,759
Home health and hospice	18,267				19,742		38,009
Emergency visits	61,103	48,415	73,285	74,280	49,114	50,115	356,312
Total	**1,005,292**	**656,423**	**766,640**	**710,398**	**1,097,185**	**263,585**	**4,499,523**
2014							
Hospital clinics	443,415	547,468	640,012	587,576	902,651	190,180	3,311,302
Primary care network	482,930						482,930
Home health and hospice	19,616				18,746		38,362
Emergency visits	50,026	45,058	66,313	68,345	42,295	44,517	316,554
Total	**995,987**	**592,526**	**706,325**	**655,921**	**963,692**	**234,697**	**4,149,148**
2013							
Hospital clinics	403,330	517,341	654,189	595,179	844,839	189,880	3,204,758
Primary care network	452,311						452,311
Home health and hospice	19,402				16,474		35,876
Emergency visits	47,042	43,680	66,347	66,365	37,905	46,512	307,851
Total	**922,085**	**561,021**	**720,536**	**661,544**	**899,218**	**236,392**	**4,000,796**

The volume of total outpatient visits for the Medical Centers and CHRCO are as follows:



Total outpatient visits changed in 2015 as follows:

Increased (decreased)			
Davis	9,305	0.9%	Expansion of the Medi-Cal population through the ACA has caused an increase in the number of patients being seen.
Irvine	63,897	10.8%	Increase is due to expansion of outpatient primary and specialty care services.
Los Angeles	60,315	8.5%	Outpatient visits increased due to process improvement in clinical operations increasing access to same day appointments.
San Diego	54,477	8.3%	Emergency room visits increased 8.8% overall. Clinic visits increased 8% due to operating efficiencies including scheduling improvements.
San Francisco	133,493	13.9%	Outpatient visits increased due to the growth of the pediatric emergency room opened in conjunction with the new Mission Bay hospital and the growth of other outpatient programs as enhancing efficiency and improving scheduling access during the year.
CHRCO	28,888	12.3%	Higher volume of respiratory cases increased the demand for outpatient services in addition to new services offered at the facility.

Total outpatient visits changed in 2014 as follows:

Increased (decreased)			
Davis	73,902	8.0%	Outpatient visits increased due to improved access and efficiencies in clinical operations.
Irvine	31,505	5.6%	Overall increase in clinic visits.
Los Angeles	(14,211)	(2.0%)	Hospital clinics decreased by 2.2% and emergency visits decreased by 0.1%.
San Diego	(5,623)	(0.8%)	A small decrease in clinic visits offset partially by growth in emergency visits.
San Francisco	64,474	7.2%	Increase is due to expansion of outpatient programs and clinical outreach efforts.
CHRCO	(1,695)	(0.7%)	Improved access to outpatient care has decreased emergency room visits.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following table summarizes the operating results for the Medical Centers and CHRCO for fiscal years:

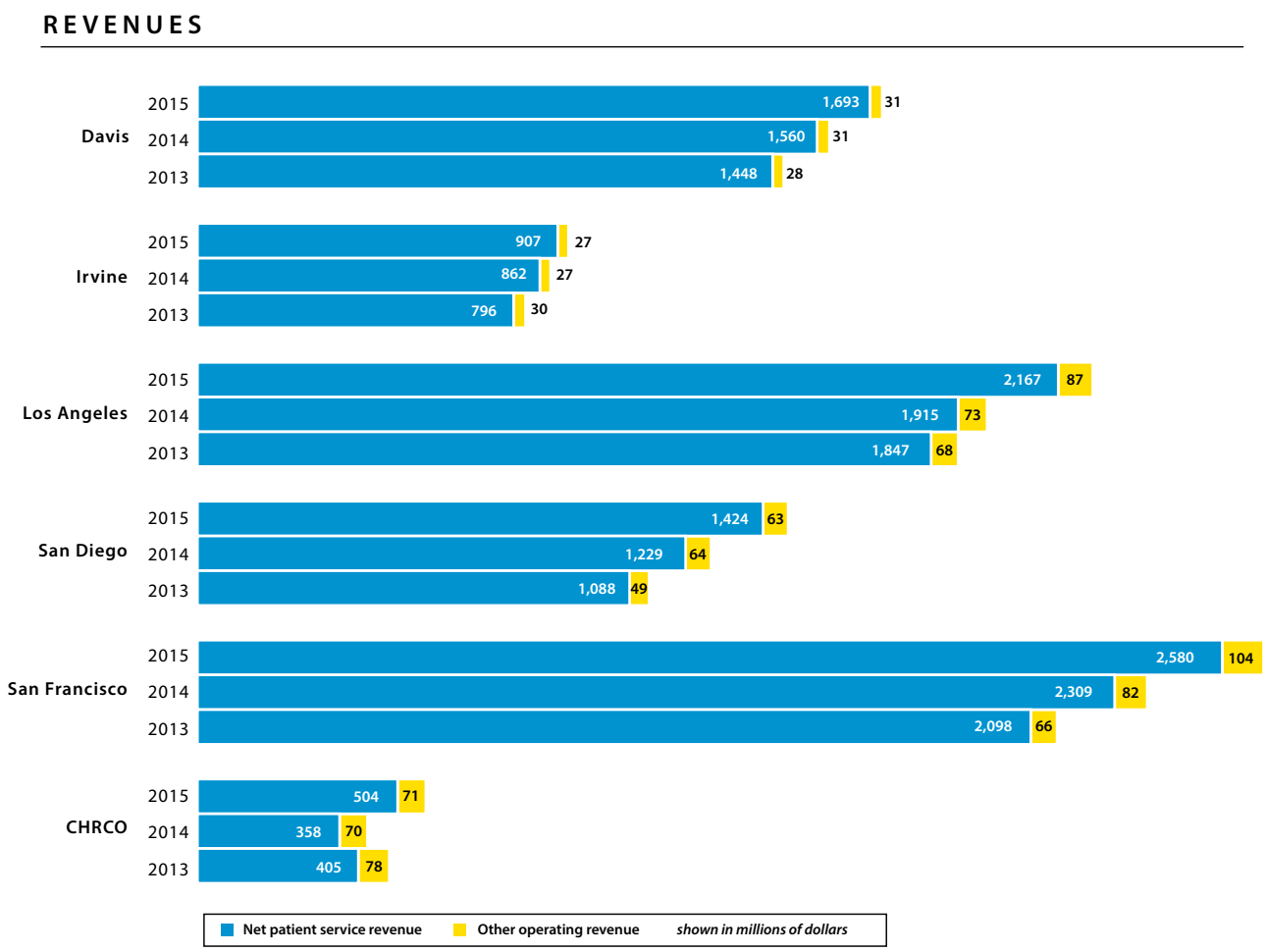
(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015							
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$2,579,844	$504,191	$9,274,771
Other operating revenue	30,521	26,569	86,716	63,095	103,608	71,355	381,864
Total operating revenue	**1,723,966**	**933,164**	**2,253,866**	**1,486,641**	**2,683,452**	**575,546**	**9,656,635**
Total operating expenses	1,672,090	864,442	2,018,617	1,292,221	2,614,878	542,839	9,005,087
Income from operations	**51,876**	**68,722**	**235,249**	**194,420**	**68,574**	**32,707**	**651,548**
Total net non-operating revenues (expenses)	(5,262)	(5,170)	(11,833)	2,789	5,391	23,421	9,336
Income before other changes in net position	**46,614**	**63,552**	**223,416**	**197,209**	**73,965**	**56,128**	**660,884**
Other changes in net position	(38,351)	(57,455)	(123,202)	(83,900)	(29,554)	44,255	(288,207)
Increase in net position	**8,263**	**6,097**	**100,214**	**113,309**	**44,411**	**100,383**	**372,677**
Beginning of year	324,206	289,190	1,102,762	615,801	782,669	431,154	3,545,782
Net position - end of year	**$ 332,469**	**$295,287**	**$1,202,976**	**$ 729,110**	**$ 827,080**	**$531,537**	**$3,918,459**
2014							
Net patient service revenue	$1,559,516	$861,988	$1,914,604	$1,228,648	$2,308,685	$357,823	$8,231,264
Other operating revenue	30,711	26,787	73,433	64,216	81,588	70,353	347,088
Total operating revenue	**1,590,227**	**888,775**	**1,988,037**	**1,292,864**	**2,390,273**	**428,176**	**8,578,352**
Total operating expenses	1,533,481	811,841	1,864,822	1,145,948	2,230,869	484,006	8,070,967
Income (loss) from operations	**56,746**	**76,934**	**123,215**	**146,916**	**159,404**	**(55,830)**	**507,385**
Total net non-operating revenues (expenses)	(9,761)	(10,940)	(20,098)	(2,810)	22,400	26,474	5,265
Income (loss) before other changes in net position	**46,985**	**65,994**	**103,117**	**144,106**	**181,804**	**(29,356)**	**512,650**
Other changes in net position	(42,418)	(24,549)	(114,249)	(48,952)	202,223	41,628	13,683
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**384,027**	**12,272**	**526,333**
Beginning of year	319,639	247,745	1,113,894	520,647	398,642	418,882	3,019,449
Net position - end of year	**$ 324,206**	**$289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$3,545,782**
2013							
Net patient service revenue	$1,448,358	$ 795,678	$1,846,792	$1,088,146	$2,098,463	$405,398	$7,682,835
Other operating revenue	28,089	30,272	67,661	48,942	65,846	77,871	318,681
Total operating revenue	**1,476,447**	**825,950**	**1,914,453**	**1,137,088**	**2,164,309**	**483,269**	**8,001,516**
Total operating expenses	1,490,053	802,403	1,813,098	1,052,270	2,157,740	464,841	7,780,405
Income (loss) from operations	**(13,606)**	**23,547**	**101,355**	**84,818**	**6,569**	**18,428**	**221,111**
Total net non-operating revenues (expenses)	(10,988)	(11,992)	(7,801)	(3,366)	12,146	23,601	1,600
Income (loss) before other changes in net position	**(24,594)**	**11,555**	**93,554**	**81,452**	**18,715**	**42,029**	**222,711**
Other changes in net position	(19,713)	(35,962)	(103,235)	(2,704)	14,187	37,406	(110,021)
Increase (decrease) in net position	**(44,307)**	**(24,407)**	**(9,681)**	**78,748**	**32,902**	**79,435**	**112,690**
Beginning of year	363,946	272,152	1,123,575	441,899	365,740	339,447	2,906,759
Net position - end of year	**$ 319,639**	**$ 247,745**	**$1,113,894**	**$ 520,647**	**$ 398,642**	**$418,882**	**$3,019,449**

Revenues

Patient service revenue depends on inpatient occupancy levels, the volume of outpatient visits, the complexity of care provided and the charges or negotiated payment rates for services provided. Patient service revenues are net of bad debts and estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party commercial payors and have been estimated based on the terms of reimbursement for contracts currently in effect. Other operating revenue consisted primarily of State Clinical Teaching Support ("CTS") funds, Meaningful Use of Electronic Health Records Act revenues and other non-patient services such as contributions, cafeteria and campus revenues.

The following chart illustrates trends in the net patient service revenue and other operating revenue:



Revenues for 2015 as compared to 2014 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$133.7	8.4%	$133.9	8.6%	Growth in our specialty pharmacy program and continued growth in Medi-Cal under the Affordable Care Act, contributed to increases in Net Patient Service Revenue and Total Operating Revenue.
Irvine	44.4	5.0%	44.6	5.2%	Increase in managed care patient volume and patient days.
Los Angeles	265.8	13.4%	252.5	13.2%	The increase is due to additional supplemental funding, a reduction in bad debt provision and additional revenue received for positive settlements with the government regarding Medicare claims.
San Diego	193.8	15.0%	194.9	15.9%	The increase is due to higher patient volume, an increased complexity of cases, a reduction of uninsured patients under the Affordable Care Act, and contract price increases. Additionally, there were successful efforts in FY 2015 to improve the revenue cycle process that resulted in increased cash collection and higher net patient revenue.
San Francisco	293.2	12.3%	271.2	11.8%	Increase is primarily due to higher patient volumes with the opening of the Mission Bay hospital in February 2015.
CHRCO	147.4	34.4%	146.4	40.9%	Increase results from higher California Quality Assurance Fee revenue and supplemental state health care reimbursement program revenue.

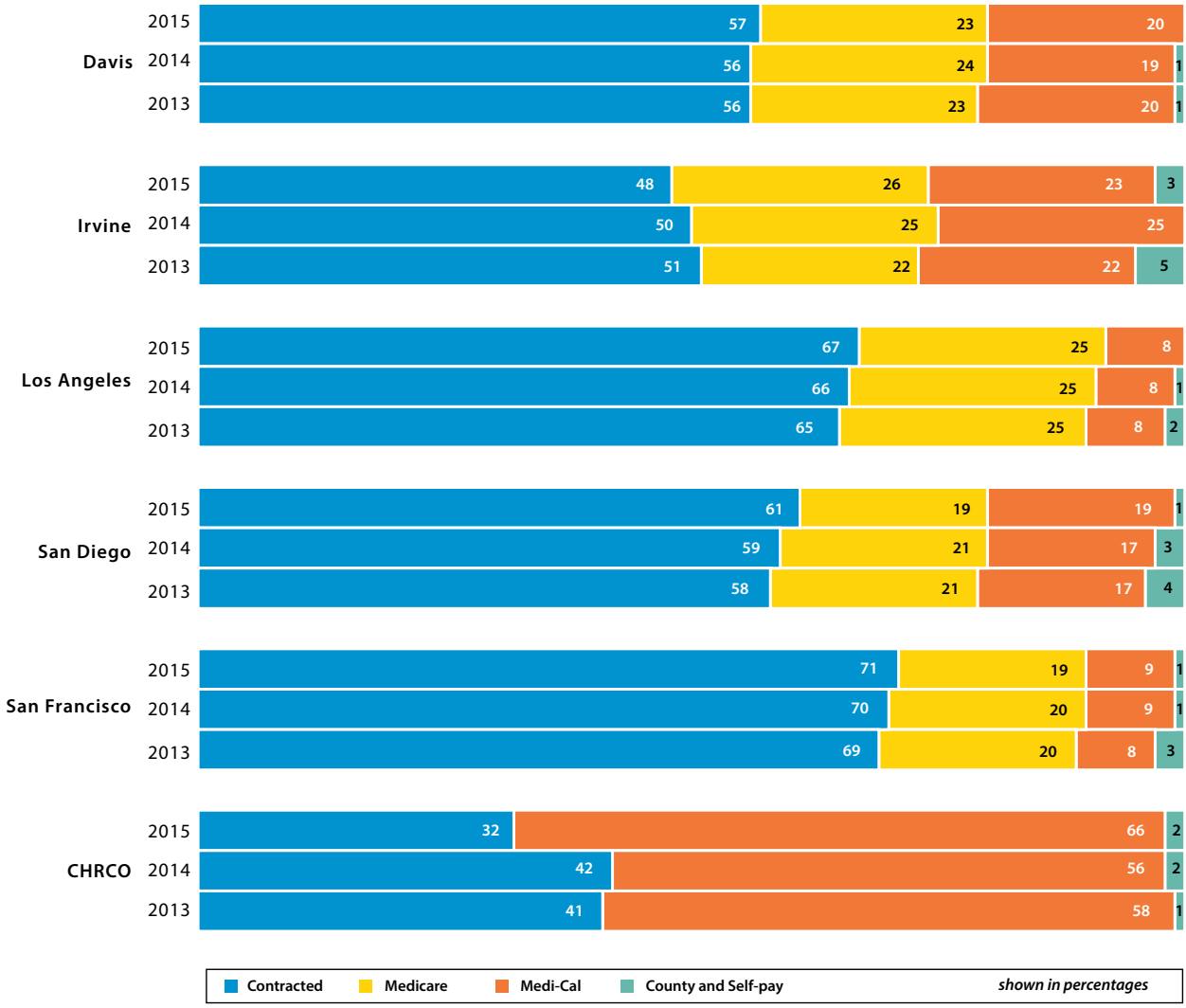
Revenues for 2014 as compared to 2013 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$113.8	7.7%	$111.2	7.7%	Performance is due to increases in contracted rates, as well as Medi-Cal expansion under the Affordable Care Act.
Irvine	62.8	7.6%	66.3	8.3%	Increase in Medicare and contract volume, and outpatient visits.
Los Angeles	73.6	3.8%	67.8	3.7%	Increase in contracts and Medicare due to rates and volume increases. Total operating revenues included electronic health record funds received in 2014.
San Diego	155.8	13.7%	140.5	12.9%	The increase is due to higher patient volume (census, surgery cases, emergency room visits and several new pharmaceutical programs), as well as to increased intensity of cases (measured by total case mix index) and contract price increases.
San Francisco	226.0	10.4%	210.2	10.0%	Increase of patient care volumes; inpatient, outpatient visits and surgeries. Also, the implementation of a new billing system in the prior year has led to better cash collections and other revenue cycle improvements in the current year.
CHRCO	(55.1)	(11.4%)	(47.6)	(11.7%)	Decreased net patient service revenue due to delayed California Quality Assurance Fee revenue offset partially by higher reimbursement rates. Total operating revenues impacted by grant expirations.

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate or case rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications. The following chart illustrates the percentage of net patient service revenue by payor:

REVENUES



Payor mix changed in 2015 as follows:

Davis	Payor mix was relatively stable during the year with a slight increase in Medi-Cal due to the continued expansion of Medicaid coverage or patients receiving coverage under a qualified ACA plan.
Irvine	Increase in Medicare and non-sponsored/self pay and outpatient visits.
Los Angeles	Contract revenue increased in relationship to volume growth and Medicare increased due to settlement with the program.
San Diego	Payor mix changed considerably in 2015 primarily due to a shift of uninsured and county patients into the Medi-Cal program, which increased the Medi-Cal percentage, as well as into commercial managed care plans, which increased the Contracts percentage.
San Francisco	Contract mix increased slightly as rate increases for commercial payors was higher than for government payors.
CHRCO	Higher revenues from the California Quality Assurance Fee Program and additional supplemental state health care reimbursement program revenue increased the Medi-Cal revenue percentage.

Payor mix changed in 2014 as follows:

Davis	The payor mix remained consistent with the prior year with a slight increase in Medicare and a slight decrease in Medi-Cal.
Irvine	Payor mix changed with 22% increase in Medicare, 23% increase in Medi-Cal and a slight decrease in county and Self-pay.
Los Angeles	Largest change in payor mix occurred in non-sponsored with a 62% decrease. Medicare increased by 6%, Medi-Cal increased by 5% and Contracts increased by 5%.
San Diego	Payor mix was stable overall. There was a slight increase in Contracts patient volume and reimbursements, partly due to the shift of county enrollees into commercial managed care plans beginning in the second half of the year.
San Francisco	Medi-Cal increased due to the impact of expanded Medi-Cal eligibility throughout the state. Low reimbursement rates for Medi-Cal did not change the revenue payor mix significantly.
CHRCO	Lower revenues from the delay of the current California Quality Assurance Fee Program decreased the Medi-Cal revenue percentage.

Operating Expenses

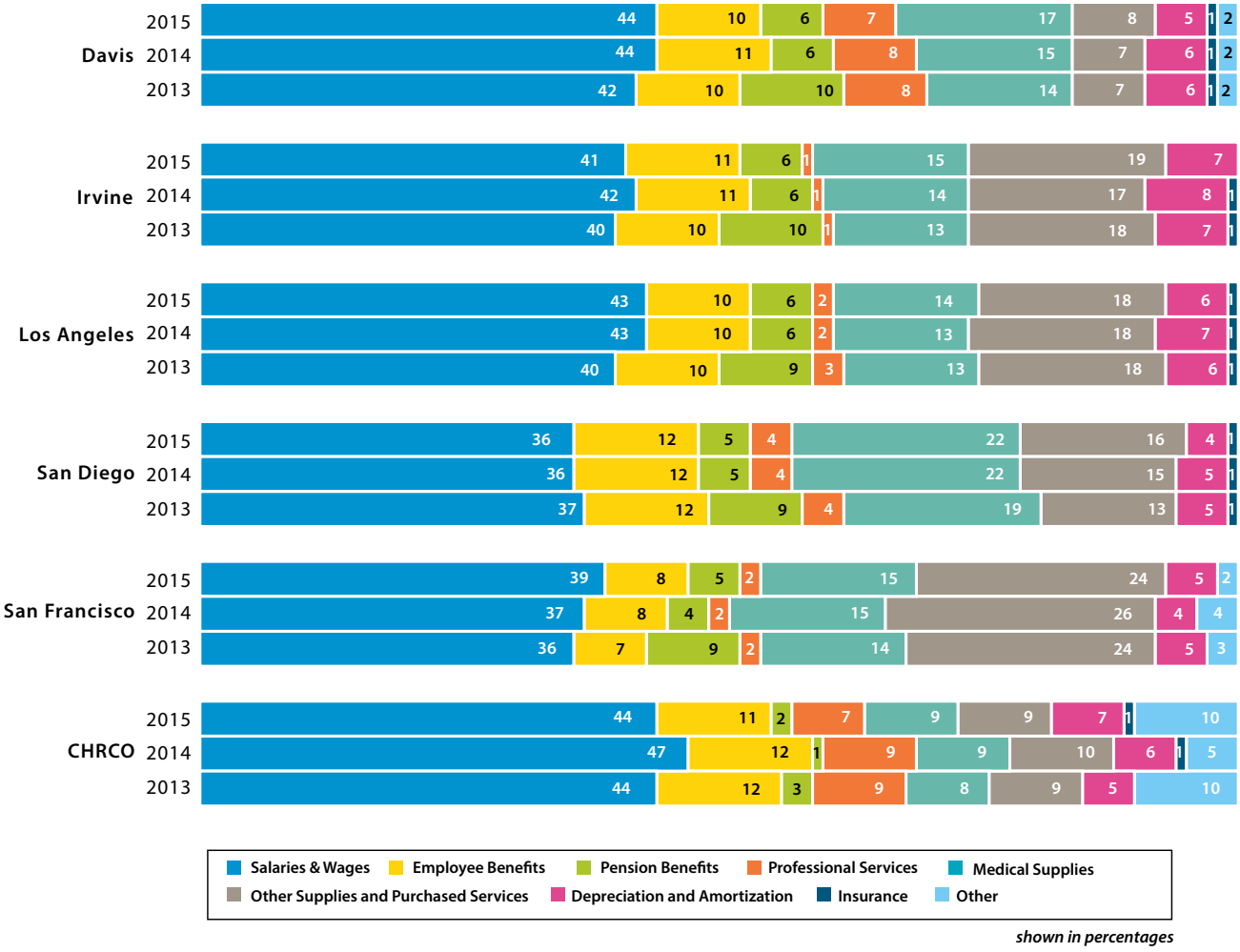
The following table summarizes the operating expenses for the Medical Centers and CHRCO:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015							
Salaries and wages	$ 729,881	$ 352,214	$ 864,458	$ 470,206	$ 985,610	$ 239,066	$3,641,435
Retiree health and other employee benefits	175,260	94,299	207,030	150,780	204,367	62,110	893,846
Pension benefits	107,907	52,646	126,325	67,052	129,462	10,344	493,736
Professional services	118,536	4,536	40,720	47,151	55,564	39,281	305,788
Medical supplies	283,794	129,044	275,594	290,038	388,538	49,950	1,416,958
Other supplies and purchased services	134,006	171,282	361,884	202,518	622,283	51,022	1,542,995
Depreciation and amortization	85,078	57,710	130,946	56,647	128,034	36,882	495,297
Insurance	8,852	2,711	11,660	7,829	6,631	2,777	40,460
Other	28,776				94,389	51,407	174,572
Total	**$1,672,090**	**$864,442**	**$2,018,617**	**$1,292,221**	**$2,614,878**	**$542,839**	**$9,005,087**
2014							
Salaries and wages	$ 671,300	$337,195	$ 804,060	$ 426,274	$ 819,158	$228,001	$3,285,988
Retiree health and other employee benefits	171,066	92,501	194,241	133,120	176,489	57,951	825,368
Pension benefits	98,554	50,486	111,890	53,515	98,636	5,703	418,784
Professional services	118,412	4,725	39,497	44,336	41,955	43,846	292,771
Medical supplies	238,011	115,701	246,120	254,660	336,272	41,628	1,232,392
Other supplies and purchased services	115,472	141,709	331,584	171,854	573,660	48,269	1,382,548
Depreciation and amortization	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Insurance	8,545	4,158	11,361	6,040	6,638	3,260	40,002
Other	26,193				79,538	25,408	131,139
Total	**$1,533,481**	**$811,841**	**$1,864,822**	**$1,145,948**	**$2,230,869**	**$484,006**	**$8,070,967**
2013							
Salaries and wages	$ 628,312	$324,434	$ 744,101	$ 402,371	$ 772,994	$205,887	$3,078,099
Retiree health and other employee benefits	155,100	83,775	174,867	123,854	155,010	54,482	747,088
Pension benefits	159,491	79,477	171,471	90,739	185,869	12,387	699,434
Professional services	115,040	4,236	48,314	43,230	34,919	43,849	289,588
Medical supplies	205,194	107,775	229,626	198,127	307,126	38,436	1,086,284
Other supplies and purchased services	104,249	141,274	322,548	135,782	521,982	41,635	1,267,470
Depreciation and amortization	88,238	56,887	110,964	52,315	100,801	21,515	430,720
Insurance	9,304	4,545	11,207	5,852	6,367	2,040	39,315
Other	25,125				72,672	44,610	142,407
Total	**$1,490,053**	**$802,403**	**$1,813,098**	**$1,052,270**	**$2,157,740**	**$464,841**	**$7,780,405**

The following graph illustrates the percentage of operating expenses by type:

OPERATING EXPENSES



shown in percentages

Total operating expenses changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$138.6	9.0%	Increases in salaries and benefit costs along with higher pharmaceutical costs and the expansion of the Medical Center's specialty pharmacy program contributed to the increase in operating expenses.
Irvine	52.6	6.5%	Increase in salaries, benefits and pension expenses; increase in supplies and purchased services and reduction in depreciation expenses.
Los Angeles	153.8	8.2%	Increase in salary and employee benefits, pension benefits, medical supplies, other supplies and purchased services due to volume increases, wage rate increases and an increase in depreciation expense.
San Diego	146.3	12.8%	The increase in salaries and employee benefits, medical supplies (primarily pharmaceuticals), and purchased services reflects higher patient volume, scheduled increases for employees and inflation. Pension expense was higher in 2015.
San Francisco	384.0	17.2%	Higher operating costs due to the opening of the Mission Bay facility in February 2015.
CHRCO	58.8	12.2%	Higher patient volume resulted in increased labor and benefits costs, medical supplies and purchased service costs offset by lower professional services. Other expenses were higher due to higher costs for the California Quality Assurance Fees.

Total operating expenses changed in 2014 as follows:

Increased (decreased) in millions of dollars

Davis	$43.4	2.9%	Higher costs are attributable to increases in salaries and pharmaceutical costs.
Irvine	9.4	1.2%	Increase in salaries and benefits and depreciation expenses.
Los Angeles	51.7	2.9%	Increase in salary and employee benefits, medical supplies, other supplies and purchased services and an increase in depreciation costs.
San Diego	93.7	8.9%	Higher patient volume resulted in increased labor costs, medical supplies and purchased services, offset partially by operational efficiencies obtained from process improvement efforts and from a reduction in pension expense.
San Francisco	73.1	3.4%	Increase in non-pension benefit costs and medical supply costs, offset by a reduction in pension expense.
CHRCO	19.2	4.1%	One-time expenses related to the electronic health record implementation and affiliation costs; increase in depreciation costs due to the electronic health records system. Other expenses were lower due to the payment delay for the fee towards the California Quality Assurance Fee.

Salaries and Benefits

Salary and employee benefits expenses include wages paid to employees, vacation, holiday and sick pay, payroll taxes, workers' compensation insurance premiums, health insurance, pension expenses and other employee benefits. Salaries and benefits as a percentage of total operating revenues have changed primarily due to operational initiatives as follows:

	2015	2014	2013	
Davis	58.8%	59.2%	63.9%	Salary and employee benefits have increased year over year, however total operating revenues have increased at a faster rate.
Irvine	53.7%	54.0%	59.0%	Salaries and benefits are consistent with the prior year.
Los Angeles	53.1%	55.8%	57.0%	Salaries and benefits decreased due to reduced staffing costs related to the implementation of the electronic health record system in the prior year and the growth in operating revenues outpaced salaries and benefits.
San Diego	46.3%	47.4%	54.3%	The overall growth in operating revenue outpaced volume-related full-time equivalent employee growth, scheduled pay increases and increased pension expense.
San Francisco	49.2%	45.8%	51.5%	Increase due to an increase of staffing needs connected with the opening of the new Mission Bay facility in February 2015.
CHRCO	54.1%	68.1%	56.4%	Salaries and benefits as a percent of total operating revenues declined due to higher California Quality Assurance Fees and supplemental revenues in the current fiscal year as compared to the prior year.

Approximately one-half of the Medical Centers' and CHRCO's workforces, including nurses and employees providing ancillary services, expand and contract with patient volumes. Salaries and wages, full-time equivalent (FTE) employees and salary and wage rates changed as follows:

Increased (decreased) in millions of dollars

	2015						2014					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	$58.6	8.7%	146	2.0%	$45.3	6.6%	$43.0	6.8%	147	2.0%	$30.1	4.7%
Irvine	15.0	4.5%	84	1.9%	8.9	2.6%	12.8	3.9%	22	0.5%	11.1	3.4%
Los Angeles	60.4	7.5%	210	2.4%	39.7	4.9%	60.0	8.1%	154	1.8%	45.5	6.1%
San Diego	43.9	10.3%	363	7.4%	12.4	2.9%	23.9	5.9%	38	0.7%	21.0	5.2%
San Francisco	166.5	20.3%	1,208	16.6%	30.7	3.7%	46.2	6.0%	38	0.5%	42.1	5.4%
CHRCO	11.1	4.9%	78	3.5%	2.9	1.3%	22.1	10.7%	77	3.6%	14.2	6.9%

Health and welfare costs increased in 2015 and 2014 due to higher insurance premiums. Employee benefits, which include pension and health and welfare costs, changed as follows:

Increased (decreased) in millions of dollars

	2015						2014					
	Employee Benefits		Pension		Health and Welfare		Employee Benefits		Pension		Health and Welfare	
Davis	$13.5	5.0%	$9.4	9.5%	$ 4.2	2.5%	$(45.0)	(14.3%)	$(60.9)	(38.2%)	$16.0	10.3%
Irvine	4.0	2.8%	2.2	4.3%	1.8	1.9%	(20.3)	(12.4%)	(29.0)	(36.5%)	8.7	10.4%
Los Angeles	27.2	8.9%	14.4	12.9%	12.8	6.6%	(40.2)	(11.6%)	(59.6)	(34.7%)	19.4	11.1%
San Diego	31.2	16.7%	13.5	25.3%	17.7	13.3%	(28.0)	(13.0%)	(37.2)	(41.0%)	9.3	7.5%
San Francisco	58.7	21.3%	30.8	31.3%	27.9	15.8%	(65.8)	(19.3%)	(87.2)	(46.9%)	21.5	13.9%
CHRCO	8.8	13.8%	4.6	81.4%	4.2	7.2%	(3.2)	(4.8%)	(6.7)	(54.0%)	3.5	6.4%

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement Plan (UCRP). The University has a financial responsibility for pension benefits associated with its defined benefit plans. Pension expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 14.0, 12.0 percent and 10.0 percent in 2015, 2014 and 2013, respectively, of covered compensation. Pension expenses were higher in 2015 due to lower than expected investment returns and assumption changes. Assumption changes, which increased the pension expenses, were based on an experience study. Pension expenses were lower in 2014 due to investment gains on plan assets in excess of expected returns.

Pension expense and contributions for the Medical Centers were as follows:

Increased (decreased) in millions of dollars

	2015		2014		2013	
	Medical Center pension expense	Pension contributions	Medical Center pension expense	Pension contributions	Medical Center pension expense	Pension contributions
Davis	$107,907	$ 88,693	$ 98,554	$ 72,105	$159,491	$ 55,904
Irvine	52,646	43,466	50,486	36,306	79,477	28,619
Los Angeles	126,325	98,329	111,890	79,216	171,471	60,075
San Diego	67,052	54,326	53,515	41,793	90,739	32,881
San Francisco	129,462	110,021	98,636	80,467	185,869	66,032
Total	**$483,392**	**$394,835**	**$413,081**	**$309,887**	**$687,047**	**$243,511**

Professional Services

Professional services include payments to the Schools of Medicine for physician services in the hospitals and clinics, payments to other health care providers for capitated patients, outside lab fees, organ acquisition fees, transcription fees and legal fees.

Professional services changed in 2015 as follows:

Increased (decreased) in millions of dollars

Davis	$ 0.1	0.1%	Professional services costs remained flat year over year.
Irvine	(0.2)	(4.0%)	Slight decrease in medical director fees.
Los Angeles	1.2	3.1%	Increase due to higher physician fees.
San Diego	2.8	6.3%	Professional services for physician fees were higher.
San Francisco	13.6	32.4%	Increase due to strategic planning initiatives.
CHRCO	(4.6)	(10.4%)	Lower costs due to a reduction in electronic health record consulting costs and lower professional services related to research grants.

Professional services changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$3.4	2.9%	Increase is due to higher professional fees for physicians and temporary information technology employee resources for our electronic health records investment.
Irvine	0.5	11.5%	Increase in professional services for medical director fees.
Los Angeles	(8.8)	(18.2%)	Lower costs related to consulting and management fees due to the cessation of a major expense reduction project, a reduction in the electronic health record consulting costs and a reduction in legal fees.
San Diego	1.1	2.6%	Professional services for physician fees were higher.
San Francisco	7.0	20.1%	Higher costs associated with the affiliation with Children's Hospital & Research Center Oakland.
CHRCO	(0.0)	(0.0%)	Professional services costs were stable.

Medical Supplies

Medical supply costs fluctuate with patient volumes. Medical supplies are also subject to significant inflationary pressures, due to escalating pharmaceutical costs and continued innovation in implants, prosthetics and other medical supplies. The Medical Centers and CHRCO have ongoing initiatives to control supply utilization and to negotiate competitive pricing.

Medical supply expenses, including pharmaceuticals, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$45.8	19.2%	Increased pharmaceutical costs associated with the specialty pharmacy practice which utilizes higher cost pharmaceuticals. The Medical Center also placed in service new or upgraded medical equipment which utilize higher cost disposables.
Irvine	13.3	11.5%	Increase was due to higher patient volume and expansion in oncology services.
Los Angeles	29.5	12.0%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	35.4	13.9%	Higher inpatient volume, surgery cases, infusion treatments, and specialty services resulted in increased costs for pharmaceuticals.
San Francisco	52.3	15.5%	Increase due to higher patient volumes and an increase of higher cost pharmaceuticals for specialty services. Additional costs also incurred in connection with the opening of the new Mission Bay facility in February, 2015.
CHRCO	8.3	20.0%	Increase in pharmaceutical costs due to higher utilization of expensive medications used in new therapies, prosthetics and surgical supplies.

Medical supply expenses, including pharmaceuticals, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$32.8	16.0%	Higher surgical cases, as well as inpatient volumes, contributed to increased costs for supplies and prosthetics. Pharmaceutical costs were higher due to an increase in outpatient speciality areas and related medication costs.
Irvine	7.9	7.4%	Increase in pharmaceutical costs due to higher usage in inpatient and cancer areas.
Los Angeles	16.5	7.2%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	56.5	28.5%	Higher inpatient volumes and surgical cases resulted in increased costs for prosthetics and surgical supplies. Pharmaceutical costs were higher due to an increased volume of expensive medications in several outpatient specialty areas.
San Francisco	29.1	9.5%	Increase due to higher pharmaceutical costs from an expanded pharmacy program and additional patient volume.
CHRCO	3.2	8.3%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications used in new therapies, and prosthetics and surgical supplies.

Other Supplies and Purchased Services

Other supplies and purchased services include non-medical supplies, medical purchased services, repairs and maintenance, administrative, treasury and insurance services.

Other supplies and purchased services changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$18.5	16.1%	Other supplies and purchased services have increased due to an increase in external expense for capitated members, non-capitalizable purchases and increases in equipment repairs, as well as additional consulting fees.
Irvine	29.6	20.9%	Primarily due to increase in temporary labor, purchased services and other expenses associated with the primary and specialty care clinic expansion.
Los Angeles	30.3	9.1%	Increase in repair and maintenance costs, blood costs, recruiting and marketing costs. Additionally, purchased services increased as a result of more transplant cases.
San Diego	30.7	17.8%	Increase is primarily for purchased services to assist in process improvements in the revenue cycle and in other key areas, and for maintenance costs.
San Francisco	48.6	8.5%	Increase due to the opening of the new Mission Bay facility in February 2015.
CHRCO	2.8	5.7%	Higher purchased service costs related to a full year of service agreements for the electronic health record system and higher research grant costs.

Other supplies and purchased services changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$11.2	10.8%	Increases in marketing, repairs and maintenance and future anticipated capitation losses.
Irvine	0.4	0.3%	Increase in purchased services and facility costs, offset by decrease in supplies, consulting and legal fees.
Los Angeles	9.0	2.8%	Increase in repair and maintenance costs, blood costs, recruiting and marketing costs.
San Diego	36.1	26.6%	Increase is primarily due to bond issuance costs, strike-related costs, equipment leases and maintenance, purchased services to assist in process improvements and contracted services for certain outpatient pharmacy programs.
San Francisco	51.7	9.9%	Higher costs due to increased medical services costs.
CHRCO	6.6	15.9%	Increase in repair and maintenance costs, blood costs, marketing costs and affiliation costs.

Depreciation and Amortization

Depreciation and amortization expense changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$(0.9)	(1.0%)	Depreciation and amortization are consistent with the prior year.
Irvine	(7.7)	(11.7%)	Decrease was due to less capital investments and more equipment disposals during the year.
Los Angeles	4.9	3.9%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	0.5	0.9%	Increase due to completed projects and new equipment that were capitalized, net of assets that became fully depreciated during the year.
San Francisco	29.5	30.0%	Increase due to the opening of the new Mission Bay facility in February 2015.
CHRCO	6.9	23.2%	Increase due to a full year of depreciation for the new electronic health records system that was placed in service during the previous fiscal year versus partial depreciation in prior year. Additionally, increase due to new equipment acquisitions.

Depreciation and amortization expense changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(2.3)	(2.6%)	Deferred capital maintenance resulted in lower depreciation expense.
Irvine	8.5	14.9%	Increase due to capitalization of GHEI clinic, QUEST projects and new equipment purchased.
Los Angeles	15.1	13.6%	Increase due to a full year of depreciation for the new electronic health records system that was placed in service at the end of the previous fiscal year vs. partial depreciation in prior year. Additionally, increase due to new additions of equipment.
San Diego	3.8	7.3%	Increase due to completed projects and new equipment that were capitalized during the year.
San Francisco	(2.3)	(2.3%)	Slight decrease due to assets becoming fully depreciated during the year.
CHRCO	8.4	39.2%	Increase due to depreciation for the new electronic health records system placed in service in the current fiscal year.

Insurance

The Medical Centers are insured through the University's malpractice, general liability, workers' compensation and health and welfare self-insurance programs. All claims and related expenses are paid from the University's self-insurance funds. Rates for each Medical Center are established based upon claims experience and insurance cost increase or decrease with favorable or unfavorable claims experience. CHRCO has a claims-made policy for malpractice, and is self-insured for workers' compensation and health and welfare benefits.

Income (loss) from Operations

The Medical Centers and CHRCO reported income (loss) from operations and operating margins of:

(in millions of dollars)

	2015		2014		2013	
	Income from Operations	**Operating Margin**	**Income (loss) from Operations**	**Operating Margin**	**Income (loss) from Operations**	**Operating Margin**
Davis	$ 51.9	3.0%	$ 56.7	3.6%	$ (13.6)	(0.9%)
Irvine	68.7	7.4%	76.9	8.7%	23.5	2.9%
Los Angeles	235.2	10.4%	123.2	6.2%	101.4	5.3%
San Diego	194.4	13.1%	146.9	11.4%	84.8	7.5%
San Francisco	68.6	2.6%	159.4	6.7%	6.6	0.3%
CHRCO	32.7	5.7%	(55.8)	(13.0%)	18.4	3.8%
Total	**$651.5**		**$507.4**		**$221.1**	

Operating margins for the Medical Centers generally increased due to higher volumes, more favorable contracted rates and efficiency initiatives. Increases are offset by investments in operating initiatives, such as investments in electronic medical records and opening new facilities; which include certain costs that are reporting as operating expenses during the start-up and implementation periods. CHRCO results improved during 2015 due to the receipt of supplemental state health care reimbursement program revenues not received in 2014. CHRCO results declined in 2014 due to the decrease in revenues from the expiration in 2013 of supplemental state health care reimbursement programs and the implementation of an electronic health records system in addition to cost increases due to inflation.

Non-operating Revenues (Expenses)

Non-operating revenues and expenses include Hospital Fee Program revenue, interest income and expenses, federal subsidies for bond interest, private gifts and losses on disposals of capital assets. Non-operating revenues and expenses for the years that ended June 30 were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Total net non-operating revenues (expenses):							
2015	$ (5,262)	$ (5,170)	$(11,833)	$2,789	$5,391	$23,421	$9,336
2014	(9,761)	(10,940)	(20,098)	(2,810)	22,400	26,474	5,265
2013	(10,988)	(11,992)	(7,801)	(3,366)	12,146	23,601	1,600

Total net non-operating revenues (expenses) improved (declined) in 2015 were as follows:

Change in millions of dollars

Davis	$4.5	46.1%	The increase in non-operating revenue is mainly due to increased revenue from the Quality Assurance Fee Program. Additionally, interest expense decreased due to reduction of equipment financing obligations.
Irvine	5.8	52.7%	Increase in revenue from Hospital Fee Program grants.
Los Angeles	8.3	41.1%	Increase in revenue from the California Quality Assurance Fee Program, increase in net appreciation of fair value for investments and decrease in interest expense.
San Diego	5.6	199.3%	The increase is primarily due to Hospital Fee Program grants as well as to more interest income that was earned on daily cash balances, which were higher overall than in the prior year.
San Francisco	(17.0)	(75.9%)	Interest expense was greater as less total interest costs were capitalized during the year with the completion of the Mission Bay facility.
CHRCO	(3.1)	(11.5%)	Investment Income was lower than prior year.

Total net non-operating revenues (expenses) improved (declined) in 2014 were as follows:

Change in millions of dollars			
Davis	$1.2	11.2%	Due to higher cash balances, interest income was slightly higher than in the prior year. Additionally, income from joint ventures increased due to improved performance.
Irvine	1.1	8.8%	Investment Income was higher and interest expense was slightly lower.
Los Angeles	(12.3)	(157.6%)	Decrease in revenue from the California Quality Assurance Fee Program, decrease in recognition of gain on interest rate swap due to a reduction in the fair market value, decrease in interest income and an increase in interest expense.
San Diego	0.6	16.5%	Interest income from a favorable settlement of a long-standing claim related to overpaid payroll taxes, more than offset the absence of any direct grant portion of the Hospital Fee Program revenue in FY 2014.
San Francisco	10.3	84.4%	Lower interest expense as a greater amount of interest cost was capitalized.
CHRCO	2.9	12.2%	Investment income increased offset by cost of debt refinancing.

Income (Loss) Before Other Changes in Net Position

Income (loss) before other changes in net position were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015	$46,614	$63,552	$223,416	$197,209	$73,965	$56,128	$660,884
2014	46,985	65,994	103,117	144,106	181,804	(29,356)	512,650
2013	(24,594)	11,555	93,554	81,452	18,715	42,029	222,711

Income (loss) before other changes in net position changed in 2015 were as follows:

Increased (decreased) in millions of dollars			
Davis	$ (0.4)	(0.8%)	Income before other changes is consistent with prior years.
Irvine	(2.4)	(3.7%)	The increase in patient revenue was outpaced by an increase in overall operating expenses due to the startup of the primary and specialty care clinic operations.
Los Angeles	120.3	116.7%	The increase is primarily due to growth in net patient service revenue attributed to increases from Contracts and the Medicare and Medi-Cal programs which outpaced increases in operating expenses.
San Diego	53.1	36.8%	Higher patient volume, the favorable shift in payor mix, and revenue cycle process improvements resulted in operating revenues that outpaced increases in operating expense.
San Francisco	(107.8)	(59.3%)	Decrease due to additional costs incurred related to the opening and operating of the new Mission Bay facility. Additional staffing and capital costs were incurred.
CHRCO	85.5	291.2%	Improved operation performance and higher revenues for supplemental state health care reimbursement programs.

Income (loss) before other changes in net position changed in 2014 were as follows:

Increased (decreased) in millions of dollars			
Davis	$ 71.6	291.0%	Improved operational performance and deferred capital maintenance contributed to the increase.
Irvine	54.4	471.1%	Increase due to the increase of patient revenues, especially in outpatient ancillary services.
Los Angeles	9.6	10.2%	Increases in patient revenues resulted in operating revenues that outpaced increases in operating expenses. The increase in patient revenues was attributed to an increase in rates and volume for contracts and Medicare.
San Diego	62.7	76.9%	Higher patient volume resulted in operating revenues that outpaced increases in operating expenses. The increase in operating expenses was controlled primarily by a focus on process improvements in key areas and by a reduction in pension expense.
San Francisco	163.1	871.4%	Significant reduction of pension expense due to favorable returns on plan assets and an increase of patient volume and improvements in the revenue cycle process.
CHRCO	(71.4)	(169.8%)	CHRCO results have declined due to the delay in revenues of supplemental state health care reimbursement programs and the implementation of an electronic health records system in addition to cost increases due to inflation.

Other Changes in Net Position

The following table presents total other changes in net position as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015	$(38,351)	$(57,455)	$(123,202)	$(83,900)	$(29,554)	$44,255	$(288,207)
2014	(42,418)	(24,549)	(114,249)	(48,952)	202,223	41,628	13,683
2013	(19,713)	(35,962)	(103,235)	(2,704)	14,187	37,406	(110,021)

Health system support includes amounts paid to the Schools of Medicine by the Medical Centers to fund the operating activities, clinical research, the faculty practice plans, as well as other payments for various programs. Transfers from the respective campuses to fund capital projects are reported as contributions for building programs.

Other changes in net position changed in 2015 as follows:

Increased (decreased) in millions of dollars

Davis	$ 4.1	9.6%	Support from the Medical Center for the professional practice's electronic health record initiative increased which was offset by capital funding transfers received by the Medical Center.
Irvine	(32.9)	(134%)	Contributions for building program decreased by $35.6 million.
Los Angeles	(9.0)	(7.8%)	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	(34.9)	(71.4%)	The change was primarily due to increased health system support transfers to the School of Medicine.
San Francisco	(231.8)	(114.6%)	Capital contributions received were lower than in the prior year and health system support increased.
CHRCO	2.6	6.3%	Increased contributions received for donated assets for capital projects offset by lower receipts from Children's Hospital Bond Act funds in the current year.

Other changes in net position changed in 2014 as follows:

Increased (decreased) in millions of dollars

Davis	$ (22.7)	(115.2%)	The Medical Center is supporting the investment of the professional practice in its electronic health record development.
Irvine	11.4	31.7%	Increase due to the proportionate share of changes from pension.
Los Angeles	(11.0)	(10.7%)	Payments for health system support, representing transfers to the School of Medicine, and decrease due to the proportionate share of changes from pension.
San Diego	(46.2)	(1,710.4%)	The one-time receipt of proceeds from Children's Hospital Bond Act funds that was received in 2013 was not repeated in 2014.
San Francisco	188.0	1325.4%	Received contributions to fund the construction of a new hospital facility.
CHRCO	4.2	11.3%	Increased contributions received for capital projects and higher receipts from Children's Hospital Bond Act funds in the current year.

STATEMENTS OF NET POSITION

The following tables are abbreviated statements of net position at June 30:

(in thousands of dollars)

2015	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Current assets:							
Cash	$ 409,254	$ 282,757	$ 734,777	$ 402,045	$ 358,794	$ 23,268	$ 2,210,895
Patient accounts receivable, net	239,997	125,697	312,585	202,929	383,682	69,320	1,334,210
Short-term investments and other current assets	85,532	88,308	81,487	122,828	91,890	136,493	606,538
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**834,366**	**229,081**	**4,151,643**
Restricted assets			15,005	73,643	7,329	54,821	150,798
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,136,862	268,150	7,265,544
Investment and other non-current assets	21,540		286,550	8,518	1,861	163,833	482,302
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**2,980,418**	**715,885**	**12,050,287**
Deferred outflows of resources	**338,097**	**162,808**	**433,959**	**211,728**	**452,960**	**45,695**	**1,645,247**
Liabilities:							
Current liabilities	351,615	260,713	326,049	179,233	366,633	76,893	1,561,136
Long-term debt	294,564	271,824	810,389	693,410	833,600		2,903,787
Pension obligations	627,561	308,211	697,260	385,387	777,948	50,675	2,847,042
Other non-current liabilities	174,007	85,453	329,114	116,187	226,824	80,156	1,011,741
Total liabilities	**1,447,747**	**926,201**	**2,162,812**	**1,374,217**	**2,205,005**	**207,724**	**8,323,706**
Deferred inflows of resources	**317,284**	**165,393**	**343,940**	**203,140**	**401,293**	**22,319**	**1,453,369**
Net position:							
Net investment in capital assets	683,085	441,838	1,027,330	648,136	1,299,326	212,235	4,311,950
Restricted			12,213		7,329	56,934	76,476
Unrestricted	(350,616)	(146,551)	163,433	80,974	(479,575)	262,368	(469,967)
Total net position	**$ 332,469**	**$ 295,287**	**$1,202,976**	**$ 729,110**	**$ 827,080**	**$531,537**	**$ 3,918,459**

2014							
Current assets:							
Cash	$ 298,005	$ 272,032	$ 821,098	$ 254,660	$ 495,361	$ 11,674	$ 2,152,830
Patient accounts receivable, net	225,159	133,120	303,492	236,829	325,730	68,258	1,292,588
Short-term investments and other current assets	86,239	55,279	105,594	96,858	72,959	49,811	466,740
Total current assets	**609,403**	**460,431**	**1,230,184**	**588,347**	**894,050**	**129,743**	**3,912,158**
Restricted assets		3,232	15,705	216,687	16,703	53,353	305,680
Capital assets, net	1,044,562	734,373	1,871,926	1,117,283	1,913,427	283,632	6,965,203
Investment and other non-current assets	20,638		29,898	15,125		164,504	230,165
Total assets	**1,674,603**	**1,198,036**	**3,147,713**	**1,937,442**	**2,824,180**	**631,232**	**11,413,206**
Deferred outflows of resources	**251,415**	**124,238**	**329,765**	**139,639**	**256,587**	**5,445**	**1,107,089**
Liabilities:							
Current liabilities	259,435	231,659	308,007	167,397	283,370	82,943	1,332,811
Long-term debt	323,879	285,473	820,828	677,705	837,536		2,945,421
Pension obligations	468,810	235,813	513,936	271,458	523,452	11,212	2,024,681
Other non-current liabilities	131,565	65,783	274,040	81,743	158,374	80,715	792,220
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,802,732**	**174,870**	**7,095,133**
Deferred inflows of resources	**418,123**	**214,356**	**457,905**	**262,977**	**495,366**	**30,653**	**1,879,380**
Net position:							
Net investment in capital assets	697,588	431,649	1,042,789	634,869	1,075,700	224,314	4,106,909
Restricted		3,232	12,670		9,959	53,353	79,214
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(302,990)	153,487	(640,341)
Total net position	**$ 324,206**	**$ 289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$ 431,154**	**$ 3,545,782**

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2013							
Current assets:							
Cash	$ 254,609	$ 158,830	$ 700,743	$ 185,552	$ 413,486	$ 33,352	$ 1,746,572
Patient accounts receivable , net	215,062	108,313	335,353	171,750	324,577	56,074	1,211,129
Short-term investments and other current assets	86,696	76,003	114,113	114,893	107,211	80,851	579,767
Total current assets	**556,367**	**343,146**	**1,150,209**	**472,195**	**845,274**	**170,277**	**3,537,468**
Restricted assets		21,018	15,311	120	30,213	48,115	114,777
Capital assets, net	1,077,727	725,978	1,911,573	908,868	1,630,307	241,873	6,496,326
Investment and other non-current assets	25,413		27,881	11,403		165,655	230,352
Total assets	**1,659,507**	**1,090,142**	**3,104,974**	**1,392,586**	**2,505,794**	**625,920**	**10,378,923**
Deferred outflows of resources	**325,097**	**159,281**	**368,745**	**189,645**	**365,001**	**3,958**	**1,411,727**
Liabilities:							
Current liabilities	262,044	162,166	367,727	215,763	288,900	75,543	1,372,143
Long-term debt	335,485	295,822	723,719	190,352	843,951	63,138	2,452,467
Pension obligations	690,989	345,341	739,451	405,012	822,056	39,342	3,042,191
Other non-current liabilities	131,535	70,739	267,018	80,491	226,168	22,233	798,184
Total liabilities	**1,420,053**	**874,068**	**2,097,915**	**891,618**	**2,181,075**	**200,256**	**7,664,985**
Deferred inflows of resources	**244,912**	**127,610**	**261,910**	**169,966**	**291,078**	**10,740**	**1,106,216**
Net position:							
Net investment in capital assets	696,397	427,435	1,128,214	677,957	748,754	176,137	3,854,894
Restricted			12,135		21,862	52,439	86,436
Unrestricted	(376,758)	(179,690)	(26,455)	(157,310)	(371,974)	190,306	(921,881)
Total net position	**$ 319,639**	**$ 247,745**	**$1,113,894**	**$ 520,647**	**$ 398,642**	**$ 418,882**	**$ 3,019,449**

Cash

Cash changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$111.2	37.3%	The increase is primarily due to cash provided by operations and lower capital expenditures.
Irvine	10.7	3.9%	Cash provided by operations exceeded cash used for capital and financing activities.
Los Angeles	(86.3)	(10.5%)	Decrease is due to investing a significant amount of cash in long-term investments.
San Diego	147.4	57.9%	The increase was primarily due to cash provided from operations including a reduction of 14.3% in net patient accounts receivable.
San Francisco	(136.6)	(27.6%)	Cash from operations was used to pay for construction and equipment related to the new Mission Bay facility.
CHRCO	11.6	99.3%	Increase is due to approval of the current California Quality Assurance Fee Program, higher receipts on state supplemental programs, reimbursement from the Children's Hospital Bond Act and more timely payments for patient accounts receivable.

Cash changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$ 43.4	17.0%	Operating activities generated high cash receipts which exceeded spending on capital and financing activities.
Irvine	113.2	71.3%	Increase due to cash provided by operating activities. Capital expenditure in GHEI was funded by donated assets to School of Medicine.
Los Angeles	120.4	17.2%	Increase in cash due to more timely payments for patient accounts receivables and third-party settlements.
San Diego	69.1	37.2%	The increase was primarily due to cash provided by operations. Capital spending for construction of the Jacobs Medical Center was funded by proceeds from a bond issue and by contributions.
San Francisco	81.9	19.8%	Increase due to cash provided from operations. Spending on capital for Mission Bay hospital facility was partially supported by contributions.
CHRCO	(21.7)	(65.0%)	Decrease is due to capital spending on the electronic health records system not yet reimbursed by the state grant approved under the Children's Hospital Bond Act and the delayed approval of the current year's California Quality Assurance Fee Program.

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$14.8	6.6%	Net patient accounts receivable increased due to increases in volume and contracted price increases.
Irvine	(7.4)	(5.6%)	Decrease due to continued improvement in billing and collection.
Los Angeles	9.1	3.0%	Increase due to improved valuation of accounts from rate increases and improved timing of collecting accounts.
San Diego	(33.9)	(14.3%)	The decrease was primarily due to focused revenue cycle process improvements, as well as to increased familiarity with the new billing system that was implemented in the prior fiscal year.
San Francisco	58.0	17.8%	Increase due to higher patient volumes in the last half of the fiscal year in conjunction with the opening of the new hospital at Mission Bay.
CHRCO	1.1	1.6%	Slight increase due to increase of patient volume offset by revenue cycle improvements which has accelerated the timing of collections on patient billings.

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$10.1	4.7%	Increase in contracted rates and speciality pharmacy services, as well as increased volumes.
Irvine	24.8	22.9%	Increase due to higher outpatient volume.
Los Angeles	(31.9)	(9.5%)	Decrease due to improved timeliness of billing and collections of patient accounts receivable related to the implementation of a new billing system at the end of 2013.
San Diego	65.1	37.9%	Increase due partially to the slowing of billing and collection as a result of the mid-year implementation of a new billing system, to the timing of fixed patient payments from the federal government at fiscal year end and to overall increased patient volume in the fourth quarter.
San Francisco	1.2	0.4%	Slight increase due to increase of patient volume offset by revenue cycle improvements which has accelerated the timing of collections on patient billings.
CHRCO	12.2	21.7%	Increase due partially to the slowing of billing and collection as a result of the mid-year implementation of a new billing system and full implementation of the state's change in payment methodology to APR-DRG as compared to a daily per-diem rate.

Capital Assets

Net capital assets changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$(41.5)	(4.0%)	Annual depreciation exceeded capital projects for the year.
Irvine	(7.1)	(1.0%)	Decrease due to depreciation exceeding additions.
Los Angeles	(26.6)	(1.4%)	Annual depreciation exceeded capital projects for the year.
San Diego	167.5	15.0%	Primarily for construction costs of the Jacobs Medical Center. Funds for this construction were obtained from proceeds of a previous bond issue and from contributions.
San Francisco	223.4	11.7%	Construction costs for the development of the Mission Bay hospital facility.
CHRCO	(15.5)	(5.5%)	Annual depreciation exceeded capital projects for the year.

Net capital assets changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(33.2)	(3.1%)	Decrease is due to deferred capital maintenance.
Irvine	8.4	1.2%	Completion of the GHEI clinic and equipment purchases.
Los Angeles	(39.6)	(2.1%)	Annual depreciation exceeded capital projects for the year.
San Diego	208.4	22.9%	Primarily for construction of the Jacobs Medical Center.
San Francisco	283.1	17.4%	Construction costs for the development of the Mission Bay hospital facility.
CHRCO	41.8	17.3%	Capital spending on the electronic health records system.

Long-term Debt

Long-term debt, including the current portion, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$(32.6)	(9.1%)	Debt service payments.
Irvine	(17.3)	(5.7%)	Debt service payments.
Los Angeles	(11.3)	(1.4%)	Debt service payments.
San Diego	17.6	2.5%	The increase is due to three new equipment financing arrangements, net of debt service payments.
San Francisco	(6.9)	(0.8%)	Debt service payments.
CHRCO	(1.2)	(100.0%)	Loan repayments.

Long-term debt, including the current portion, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(12.9)	(3.5%)	Principal payments on bonds and financing loans exceeded new debt.
Irvine	(11.7)	(3.7%)	Debt service payments.
Los Angeles	96.9	13.2%	Increase due to the refinancing of debt with a new bond.
San Diego	488.0	238.5%	This is due to proceeds from new bonds issued in August 2013 as permanent financing for the Jacobs Medical Center, net of debt service payments on existing debt.
San Francisco	(46.0)	(5.2%)	Debt service payments.
CHRCO	(64.5)	(98.2%)	The 2007 bonds were refinanced as part of the affiliation.

Pension Obligations

The University has a financial responsibility for pension benefits associated with its defined benefit plans. The net pension liability is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2015		2014		2013	
	Proportionate Share	Pension Obligation	Proportionate Share	Pension Obligation	Proportionate Share	Pension Obligation
Davis	6.5%	$ 627,561	6.6%	$ 468,810	6.5%	$ 690,989
Irvine	3.2%	308,211	3.3%	235,813	3.3%	345,341
Los Angeles	7.2%	697,260	7.3%	513,936	7.0%	739,451
San Diego	4.0%	385,387	3.9%	271,458	3.8%	405,012
San Francisco	8.1%	777,948	7.4%	523,452	7.8%	822,056
Total	**29.0%**	**$2,796,367**	**28.5%**	**$2,013,469**	**28.4%**	**$3,002,849**

The changes in net pension liability have been primarily driven by the investment performance of the UCRP investment portfolio and changes in assumptions in 2015. UCRP's total investment rate of return was 4.5 percent in 2015, 17.4 percent in 2014 and 11.7 percent in 2013. The discount rate used to estimate the net pension liability as of June 30, 2015 was 7.25 percent and 7.5 percent as of June 30, 2014 and 2013. Assumption changes included lowering the expected rate of return and extending the mortality tables, which increased the net pension liability, offset by lowering the expected inflation rate.

CHRCO is the sponsor of a single employer defined benefit plan subject to ERISA that covers substantially all full-time employees. The net pension liability for CHRCO is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The net pension liability for CHRCO increased by $39.5 million or 352.0 percent, due to the application of new mortality tables and other assumption changes reflected in the recent experience study performed and actual investment earnings were lower than expected.

LIQUIDITY AND CAPITAL RESOURCES

Days Cash on Hand

Days cash on hand measures the average number of days' expenses the Medical Centers and CHRCO maintain in cash and unrestricted investments. The goal, set by the University of California Office of the President, is a minimum of 60 days. Days cash on hand at UCSF are slightly lower than the goal due to the costs of opening the hospital at Mission Bay. Days cash on hand are as follows:

	2015	2014	2013
Davis	94	75	66
Irvine	128	133	78
Los Angeles	142	172	150
San Diego	119	85	68
San Francisco	53	85	73
CHRCO	183	145	167

Days of Revenue in Accounts Receivable

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Generally days of revenue in accounts receivable have increased when Medical Centers implemented new billing systems and have decreased as the Medical Centers have streamlined the billing processes. Days of revenue in accounts receivable are as follows:

	2015	2014	2013
Davis	52	53	54
Irvine	51	56	50
Los Angeles	53	58	66
San Diego	52	70	58
San Francisco	54	51	56
CHRCO	50	70	50

Debt Service Coverage

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. Debt service coverage decreases as new debt is issued and decreases with debt service payments and stronger operating results. Debt service coverage ratios are as follows:

	2015	2014	2013
Davis	3.1	2.9	1.5
Irvine	4.1	4.1	2.2
Los Angeles	7.7	5.0	4.8
San Diego	5.7	4.9	5.4
San Francisco	4.4	3.4	2.2

CHRCO's debt was defeased by the University with commercial paper in June 2014; therefore, CHRCO is reporting a payable to the University until the debt is refinanced into University of California Medical Center Pooled Revenue Bonds.

LOOKING FORWARD

Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors and intermediaries retained by the federal, state or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees were received.

Moreover, different Government Agents frequently interpret government regulations and other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, each Medical Center and CHRCO estimate the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs. Amounts ultimately received or paid may vary significantly from these estimates.

University of California Retirement and Other Post-Employment Benefit Plans

The net pension liability for UCRP is $10.9 billion, which is being funded by a combination of employee and University contributions. Under the budget framework agreed to with the governor, the University will also receive $436.0 million in one-time funds over the next three years for UCRP, including $96.0 million in 2016, $170.0 million in 2017 and $170.0 million in 2018. This funding is contingent upon The Regents' approval of a cap on pensionable salary at the same rate as the state's Public Employees' Pension Reform Act (PEPRA) cap for the defined benefit plan for employees hired on or after July 1, 2016. The pension cap now in place is equivalent to the Internal Revenue Service level, currently $265,000; for employees hired on or after July 1, 2016, pensionable salaries would be capped at $117,020 in 2016, for those in the defined benefit plan. These changes will only affect new employees hired after the new options are implemented. For represented groups, retirement options will be subject to collective bargaining.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis and the Medical Centers do not record obligations for retiree health benefits in their financial statements. The unfunded liability for the campuses and Medical Centers as of the July 1, 2014 actuarial valuation was $14.0 billion and the Medical Centers' share of this liability would be approximately $4.1 billion. The Regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013 that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the Medical Centers and CHRCO, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the Medical Centers expect or anticipate will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The Medical Centers and CHRCO do not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.


Emergency
Equipment

Independent Auditors' Report

THE BOARD OF REGENTS
UNIVERSITY OF CALIFORNIA

We have audited the accompanying financial statements of the University of California — Davis Medical Center, University of California — Irvine Medical Center, University of California — Los Angeles Medical Center, University of California — San Diego Medical Center, and the University of California — San Francisco Medical Center (individually referred to as medical centers), each of which is a division of the University of California (the University), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements for each medical center. We have also audited the accompanying financial statements of Children's Hospital & Research Center Oakland (CHRCO), a discretely presented component unit of the University, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of each of the medical centers and CHRCO are responsible for the preparation and fair presentation of their respective financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the respective financial statements for each medical center and CHRCO based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements for each medical center and CHRCO are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of California — Davis Medical Center, University of California — Irvine Medical Center, University of California — Los Angeles Medical Center, University of California — San Diego Medical Center, University of California — San Francisco Medical Center, and Children's Hospital & Research Center Oakland as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Division Financial Statements

As discussed in Note 1, the financial statements for each medical center are intended to present the financial position, changes in financial position, and cash flows of only that portion of the University that is attributable to the transactions of each medical center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2015 and 2014, and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 24 to 48 and the schedules of the Medical Centers' proportionate share of net pension liability, changes in net pension liability for the CHRCO pension plan, net pension liability for the CHRCO pension plan and employer contributions for the CHRCO pension plan on pages 104 to 106 be presented to supplement the respective basic financial statements. Such information, although not a part of the respective basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the respective basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic individual financial statements, and other knowledge we obtained during our audits of the respective basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

IRVINE, CALIFORNIA
OCTOBER 9, 2015

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
ASSETS							
Current assets							
Cash	$ 409,254	$ 282,757	$ 734,777	$ 402,045	$ 358,794	$ 23,268	$ 2,210,895
Short-term investments						70,280	70,280
Net patient accounts receivable	239,997	125,697	312,585	202,929	383,682	69,320	1,334,210
Other receivables	10,054	1,360	16,259	11,508	8,204	53,739	101,124
Third-party payor settlements, net	15,439	60,527	11,369	71,250	15,408		173,993
Inventory	25,531	16,219	29,424	24,207	38,995	5,587	139,963
Prepaid expenses and other assets	34,508	10,202	24,435	15,863	29,283	6,887	121,178
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**834,366**	**229,081**	**4,151,643**
Restricted assets							
Cash restricted for hospital construction			2,792	73,643			76,435
Donor funds			12,213		7,329	54,821	74,363
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,136,862	268,150	7,265,544
Investments in joint ventures	21,540		981	6,997	1,861		31,379
Investments			256,750			159,439	416,189
Other assets			28,819	1,521		4,394	34,734
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**2,980,418**	**715,885**	**12,050,287**
DEFERRED OUTFLOWS OF RESOURCES	**338,097**	**162,808**	**433,959**	**211,728**	**452,960**	**45,695**	**1,645,247**
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	49,926	31,382	118,529	80,458	173,188	27,734	481,217
Accrued salaries and benefits	127,931	69,329	168,350	72,856	120,259	32,313	591,038
Third-party payor settlements, net	124,925	145,016	9,503	9,046	58,697	547	347,734
Current portion of long-term debt and financing obligations	29,325	13,494	10,438	16,873	3,936		74,066
Other current liabilities	19,508	1,492	19,229		10,553	16,299	67,081
Total current liabilities	**351,615**	**260,713**	**326,049**	**179,233**	**366,633**	**76,893**	**1,561,136**
Long-term debt and financing obligations, net of current portion	294,564	271,824	810,389	693,410	833,600		2,903,787
Pension obligations	627,561	308,211	697,260	385,387	777,948	50,675	2,847,042
Notes payable to campus			75,000	5,468			80,468
Pension payable to University	174,007	85,453	193,338	106,869	215,716		775,383
Interest rate swap agreements			60,776		11,108		71,884
Self insurance						18,146	18,146
Other noncurrent liabilities				3,850		62,010	65,860
Total liabilities	**1,447,747**	**926,201**	**2,162,812**	**1,374,217**	**2,205,005**	**207,724**	**8,323,706**
DEFERRED INFLOWS OF RESOURCES	**317,284**	**165,393**	**343,940**	**203,140**	**401,293**	**22,319**	**1,453,369**
NET POSITION							
Net Investment in capital assets	683,085	441,838	1,027,330	648,136	1,299,326	212,235	4,311,950
Restricted: Nonexpendable endowments and gifts			662			24,619	25,281
Restricted: Expendable capital projects and other			11,551		7,329	32,315	51,195
Unrestricted	(350,616)	(146,551)	163,433	80,974	(479,575)	262,368	(469,967)
Total net position	**$ 332,469**	**$ 295,287**	**$1,202,976**	**$ 729,110**	**$ 827,080**	**$531,537**	**$ 3,918,459**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
ASSETS							
Current assets							
Cash	$ 298,005	$ 272,032	$ 821,098	$ 254,660	$ 495,361	$ 11,674	$ 2,152,830
Short-term investments						10,695	10,695
Net patient accounts receivable	225,159	133,120	303,492	236,829	325,730	68,258	1,292,588
Other receivables	7,721	298	11,594	11,914	8,737	26,938	67,202
Third-party payor settlements, net	28,134	29,042	40,204	54,679	2,407		154,466
Inventory	24,295	16,664	29,177	18,856	29,964	4,857	123,813
Prepaid expenses and other assets	26,089	9,275	24,619	11,409	31,851	7,321	110,564
Total current assets	**609,403**	**460,431**	**1,230,184**	**588,347**	**894,050**	**129,743**	**3,912,158**
Restricted assets							
Cash restricted for hospital construction		3,232	3,036	216,687	6,744		229,699
Donor funds			12,669		9,959	53,353	75,981
Capital assets, net	1,044,562	734,373	1,871,926	1,117,283	1,913,427	283,632	6,965,203
Investments in joint ventures	20,638			13,531			34,169
Investments						158,518	158,518
Other assets			29,898	1,594		5,986	37,478
Total assets	**1,674,603**	**1,198,036**	**3,147,713**	**1,937,442**	**2,824,180**	**631,232**	**11,413,206**
DEFERRED OUTFLOWS OF RESOURCES	**251,415**	**124,238**	**329,765**	**139,639**	**256,587**	**5,445**	**1,107,089**
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	40,521	25,511	96,924	82,202	157,413	32,242	434,813
Accrued salaries and benefits	124,526	64,865	154,692	67,719	83,158	31,076	526,036
Third-party payor settlements, net	48,312	121,827	14,360	2,535	23,490	1,654	212,178
Current portion of long-term debt and financing obligations	32,599	17,096	11,344	14,941	6,935	1,198	84,113
Other current liabilities	13,477	2,360	30,687		12,374	16,773	75,671
Total current liabilities	**259,435**	**231,659**	**308,007**	**167,397**	**283,370**	**82,943**	**1,332,811**
Long-term debt and financing obligations, net of current portion	323,879	285,473	820,828	677,705	837,536		2,945,421
Pension obligations	468,810	235,813	513,936	271,458	523,452	11,212	2,024,681
Notes payable to campus			75,000				75,000
Pension payable to University	131,565	65,783	145,519	77,743	147,512		568,122
Interest rate swap agreements			53,521		10,862		64,383
Self insurance						16,091	16,091
Other noncurrent liabilities				4,000		64,624	68,624
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,802,732**	**174,870**	**7,095,133**
DEFERRED INFLOWS OF RESOURCES	**418,123**	**214,356**	**457,905**	**262,977**	**495,366**	**30,653**	**1,879,380**
NET POSITION							
Net Investment in capital assets	697,588	431,649	1,042,789	634,869	1,075,700	224,314	4,106,909
Restricted: Nonexpendable endowments and gifts			337			24,152	24,489
Restricted: Expendable capital projects and other		3,232	12,333		9,959	29,201	54,725
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(302,990)	153,487	(640,341)
Total net position	**$ 324,206**	**$ 289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$3,545,782**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$2,579,844	$504,191	$9,274,771
Other operating revenue:							
Clinical teaching support		8,727	13,467				22,194
Grants and contracts						51,366	51,366
Other	30,521	17,842	73,249	63,095	103,608	19,989	308,304
Total other operating revenue	**30,521**	**26,569**	**86,716**	**63,095**	**103,608**	**71,355**	**381,864**
Total operating revenue	**1,723,966**	**933,164**	**2,253,866**	**1,486,641**	**2,683,452**	**575,546**	**9,656,635**
Operating expenses:							
Salaries and wages	729,881	352,214	864,458	470,206	985,610	239,066	3,641,435
Retiree health and other employee benefits	175,260	94,299	207,030	150,780	204,367	62,110	893,846
Pension benefits	107,907	52,646	126,325	67,052	129,462	10,344	493,736
Professional services	118,536	4,536	40,720	47,151	55,564	39,281	305,788
Medical supplies	283,794	129,044	275,594	290,038	388,538	49,950	1,416,958
Other supplies and purchased services	134,006	171,282	361,884	202,518	622,283	51,022	1,542,995
Depreciation and amortization	85,078	57,710	130,946	56,647	128,034	36,882	495,297
Insurance	8,852	2,711	11,660	7,829	6,631	2,777	40,460
Other	28,776				94,389	51,407	174,572
Total operating expenses	**1,672,090**	**864,442**	**2,018,617**	**1,292,221**	**2,614,878**	**542,839**	**9,005,087**
Income from operations	**51,876**	**68,722**	**235,249**	**194,420**	**68,574**	**32,707**	**651,548**
Non-operating revenues (expenses):							
Hospital Fee Program grants	4,864	3,234	4,228	3,855	5,832		22,013
Investment income	4,126	3,575	13,644	4,015	10,397	9,286	45,043
Build America Bonds federal interest subsidies		3,326	3,040	2,349	14,968		23,683
Private gifts, net						14,114	14,114
Net appreciation (depreciation) in fair value of investments			4,334			(77)	4,257
Interest expense	(16,884)	(15,938)	(38,619)	(8,064)	(24,676)	(71)	(104,252)
Loss on disposal of capital assets	(930)	(170)	(151)	(270)	(1,130)		(2,651)
Other	3,562	803	1,691	904		169	7,129
Total net non-operating revenues (expenses)	**(5,262)**	**(5,170)**	**(11,833)**	**2,789**	**5,391**	**23,421**	**9,336**
Income before other changes in net position	**46,614**	**63,552**	**223,416**	**197,209**	**73,965**	**56,128**	**660,884**
Other changes in net position:							
Donated assets			4,146	15,219	55,963	18,398	93,726
Contributions (distributions) for building programs	1,398	729		(3,890)		28,294	26,531
Transfers (to) from University, net	(10,563)			6,558			(4,005)
Changes in allocation for pension payable to University	3,137	2,715	2,822	(1,136)	(11,704)		(4,166)
Health system support	(32,323)	(60,899)	(130,170)	(100,651)	(73,813)	(2,437)	(400,293)
Total other changes in net position	**(38,351)**	**(57,455)**	**(123,202)**	**(83,900)**	**(29,554)**	**44,255**	**(288,207)**
Increase in net position	**8,263**	**6,097**	**100,214**	**113,309**	**44,411**	**100,383**	**372,677**
Net position - beginning of year	324,206	289,190	1,102,762	615,801	782,669	431,154	3,545,782
Net position - end of year	**$ 332,469**	**$295,287**	**$1,202,976**	**$ 729,110**	**$ 827,080**	**$531,537**	**$3,918,459**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Net patient service revenue	$1,559,516	$861,988	$1,914,604	$1,228,648	$2,308,685	$357,823	$8,231,264
Other operating revenue:							
Clinical teaching support		8,727	13,467				22,194
Grants and contracts						49,503	49,503
Other	30,711	18,060	59,966	64,216	81,588	20,850	275,391
Total other operating revenue	**30,711**	**26,787**	**73,433**	**64,216**	**81,588**	**70,353**	**347,088**
Total operating revenue	**1,590,227**	**888,775**	**1,988,037**	**1,292,864**	**2,390,273**	**428,176**	**8,578,352**
Operating expenses:							
Salaries and wages	671,300	337,195	804,060	426,274	819,158	228,001	3,285,988
Retiree health and other employee benefits	171,066	92,501	194,241	133,120	176,489	57,951	825,368
Pension benefits	98,554	50,486	111,890	53,515	98,636	5,703	418,784
Professional services	118,412	4,725	39,497	44,336	41,955	43,846	292,771
Medical supplies	238,011	115,701	246,120	254,660	336,272	41,628	1,232,392
Other supplies and purchased services	115,472	141,709	331,584	171,854	573,660	48,269	1,382,548
Depreciation and amortization	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Insurance	8,545	4,158	11,361	6,040	6,638	3,260	40,002
Other	26,193				79,538	25,408	131,139
Total operating expenses	**1,533,481**	**811,841**	**1,864,822**	**1,145,948**	**2,230,869**	**484,006**	**8,070,967**
Income (loss) from operations	**56,746**	**76,934**	**123,215**	**146,916**	**159,404**	**(55,830)**	**507,385**
Non-operating revenues (expenses):							
Hospital Fee Program grants		9	217				226
Investment income	4,102	3,137	14,944	3,833	12,572	23,787	62,375
Build America Bonds federal interest subsidies		3,308	3,068	2,351	15,273		24,000
Private gifts, net						8,966	8,966
Net appreciation in fair value of investments						2,734	2,734
Interest expense	(17,918)	(16,910)	(40,940)	(7,901)	(4,685)	(1,444)	(89,798)
Gain (loss) on disposal of capital assets	(980)	(484)	(369)	(1,093)	(760)		(3,686)
Gain on investment derivative			2,982				2,982
Other	5,035					(7,569)	(2,534)
Total net non-operating revenues (expenses)	**(9,761)**	**(10,940)**	**(20,098)**	**(2,810)**	**22,400**	**26,474**	**5,265**
Income (loss) before other changes in net position	**46,985**	**65,994**	**103,117**	**144,106**	**181,804**	**(29,356)**	**512,650**
Other changes in net position:							
Donated assets			7,592	13,701	254,529	7,525	283,347
Contributions for building programs	944	36,339		3,529		34,103	74,915
Transfers (to) from University, net	(5,077)	(546)		(8,530)			(14,153)
Changes in allocation for pension payable to University	(29)	44	(4,759)	(645)	8,973		3,584
Health system support	(38,256)	(60,386)	(117,082)	(57,007)	(61,279)		(334,010)
Total other changes in net position	**(42,418)**	**(24,549)**	**(114,249)**	**(48,952)**	**202,223**	**41,628**	**13,683**
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**384,027**	**12,272**	**526,333**
Net position - beginning of year	319,639	247,745	1,113,894	520,647	398,642	418,882	3,019,449
Net position - end of year	**$ 324,206**	**$289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$3,545,782**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Cash flows from operating activities:							
Receipts from patients and third-party payors	$1,770,941	$937,207	$2,170,084	$1,447,386	$2,544,099	$473,111	$9,342,828
Payments to employees	(727,819)	(348,597)	(860,261)	(465,069)	(964,747)	(237,829)	(3,604,322)
Payments to suppliers	(561,484)	(300,460)	(662,623)	(563,077)	(1,148,465)	(200,153)	(3,436,262)
Payments for benefits	(270,204)	(138,848)	(300,834)	(207,840)	(317,591)	(81,575)	(1,316,892)
Other receipts (payments)	23,738	(9,559)	75,057	70,599	118,210	74,572	352,617
Net cash provided by operating activities	**235,172**	**139,743**	**421,423**	**281,999**	**231,506**	**28,126**	**1,337,969**
Cash flows from noncapital financing activities:							
Health system support	(32,323)	(60,899)	(130,170)	(100,651)	(73,813)	(2,437)	(400,293)
Grants from the Hospital Fee Program	1,838	3,234	4,228	3,855	5,832		18,987
Transfers (to) from University	(10,563)			6,558			(4,005)
Gifts received for other than capital purposes						14,114	14,114
Net cash provided (used) by noncapital financing activities	**(41,048)**	**(57,665)**	**(125,942)**	**(90,238)**	**(67,981)**	**11,677**	**(371,197)**
Cash flows from capital and related financing activities:							
Contributions (distributions) for building program	1,398	729		(3,890)		28,294	26,531
Repayment of University advances						(2,200)	(2,200)
Proceeds from financing obligations and other borrowings				32,970			32,970
Build America Bonds federal interest subsidies		3,326	3,040	2,349	14,968		23,683
Proceeds from sale of capital assets	49			49	5,903	239	6,240
Purchases of capital assets	(42,269)	(49,829)	(99,929)	(194,925)	(336,895)	(20,488)	(744,335)
Principal paid on long-term debt and financing obligations	(31,781)	(17,096)	(10,944)	(14,737)	(6,914)	(1,198)	(82,670)
Interest paid on long-term debt and financing obligations	(15,793)	(16,093)	(40,332)	(35,908)	(51,027)	(185)	(159,338)
Gifts and donated funds			4,146	15,219	55,963	18,398	93,726
Net cash provided (used) by capital and related financing activities	**(88,396)**	**(78,963)**	**(144,019)**	**(198,873)**	**(318,002)**	**22,860**	**(805,393)**
Cash flows from investing activities:							
Investment income received	4,126	3,575	13,644	4,015	10,397	9,286	45,043
Distributions from (contributions to) investments in joint ventures, net	1,400		286	6,534	(1,861)		6,359
Proceeds from sales and maturities of investments						374,333	374,333
Purchase of investments			(252,415)			(434,839)	(687,254)
Change in restricted assets		3,232	702	143,044	9,374	(1,468)	154,884
Other non-operating receipts (payments)	(5)	803		904		1,619	3,321
Net cash provided (used) by investing activities	**5,521**	**7,610**	**(237,783)**	**154,497**	**17,910**	**(51,069)**	**(103,314)**
Net increase (decrease) in cash	**111,249**	**10,725**	**(86,321)**	**147,385**	**(136,567)**	**11,594**	**58,065**
Cash - beginning of year	298,005	272,032	821,098	254,660	495,361	11,674	2,152,830
Cash - end of year	**$ 409,254**	**$282,757**	**$ 734,777**	**$ 402,045**	**$ 358,794**	**$ 23,268**	**$2,210,895**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Reconciliation of income from operations to net cash provided by (used) operating activities:							
Income from operations	$ 51,876	$ 68,722	$235,249	$194,420	$ 68,574	$32,707	$ 651,548
Adjustments to reconcile income from operations to net cash provided by operating activities:							
Depreciation and amortization expense	85,078	57,710	130,946	56,647	128,034	36,882	495,297
Provision for uncollectible accounts	96,056	22,806	25,702	43,790	63,859	6,283	258,496
Impairment of capital assets	1,283						1,283
Changes in operating assets and liabilities:							
Patient accounts receivable	(110,894)	(15,383)	(34,796)	(9,890)	(121,811)	(7,345)	(300,119)
Other receivables	(1,068)	(32,547)	(4,665)	406	533	(26,801)	(64,142)
Inventory	(1,236)	445	(246)	(5,351)	(9,031)	(730)	(16,149)
Prepaid expenses and other assets	(8,419)	(927)	1,687	(4,381)	2,568	434	(9,038)
Accounts payable and accrued expenses	5,846	4,884	18,307	1,438	20,587	(5,480)	45,582
Accrued salaries and benefits	3,405	4,464	13,658	5,137	37,101	1,237	65,002
Third-party payor settlements	92,334	23,189	23,978	(10,060)	22,206	(1,107)	150,540
Other liabilities	6,154	(870)	(11,458)	(150)	(1,814)	1,167	(6,971)
Pension benefits	14,757	7,250	23,061	9,993	20,700	(9,121)	66,640
Net cash provided by operating activities	**$235,172**	**$139,743**	**$421,423**	**$281,999**	**$231,506**	**$28,126**	**$1,337,969**
Supplemental noncash activities information:							
Payables for property and equipment	$9,396	$1,967	$10,527	$3,273	$13,341	$2,317	$40,821
Amortization of bond premium	808	155	401	596	21		1,981
Capital asset transfers from (to) the University	(319)	729					410
Change in fair value of interest rate swaps			7,255		246		7,501
Swap fair value amortization			424				424
Advances from University				5,468			5,468
Exchange of investments for commingled funds						46,289	46,289

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Cash flows from operating activities:							
Receipts from patients and third-party payors	$1,564,294	$898,260	$1,982,400	$1,186,595	$2,309,363	$375,273	$8,316,185
Payments to employees	(658,666)	(332,009)	(794,535)	(443,322)	(814,287)	(196,996)	(3,239,815)
Payments to suppliers	(499,642)	(256,961)	(621,087)	(467,469)	(1,017,738)	(171,868)	(3,034,765)
Payments for benefits	(241,465)	(128,662)	(271,000)	(151,882)	(269,685)	(97,882)	(1,160,576)
Other receipts (payments)	16,703	42,687	62,006	72,619	80,250	76,321	350,586
Net cash provided (used) by operating activities	**181,224**	**223,315**	**357,784**	**196,541**	**287,903**	**(15,152)**	**1,231,615**
Cash flows from noncapital financing activities:							
Health system support	(38,256)	(60,386)	(117,082)	(57,007)	(61,279)		(334,010)
Grants from (to) the Hospital Fee Program	(484)	9	217				(258)
Transfers (to) from University	(11,666)	(546)		(8,530)			(20,742)
Gifts received for other than capital purposes						8,731	8,731
Other non-operating receipts						463	463
Net cash provided (used) by noncapital financing activities	**(50,406)**	**(60,923)**	**(116,865)**	**(65,537)**	**(61,279)**	**9,194**	**(345,816)**
Cash flows from capital and related financing activities:							
Contributions for building program	944			3,529		34,103	38,576
Proceeds from financing obligations and other borrowings			29,994	444,523	525	58,120	533,162
Build America Bonds federal interest subsidies		3,308	3,068	2,351	15,273		24,000
Capital gifts and grants						9,372	9,372
Proceeds from sale of capital assets	16			87	63	232	398
Purchases of capital assets	(51,414)	(36,983)	(92,898)	(261,912)	(343,473)	(70,411)	(857,091)
Principal paid on long-term debt and financing obligations	(34,434)	(19,055)	(41,559)	(15,431)	(47,030)	(66,651)	(224,160)
Interest paid on long-term debt and financing obligations	(16,446)	(17,383)	(41,310)	(32,279)	(50,718)	(2,988)	(161,124)
Donated assets			7,591	13,701	254,529		275,821
Net cash provided (used) by capital and related financing activities	**(101,334)**	**(70,113)**	**(135,114)**	**154,569**	**(170,831)**	**(38,223)**	**(361,046)**
Cash flows from investing activities:							
Interest income received	4,102	3,137	14,944	3,833	12,572	3,650	42,238
Distributions from (contributions to) investments in joint ventures, net	9,800			(3,731)			6,069
Proceeds from sales and maturities of investments						129,923	129,923
Purchase of investments						(126,954)	(126,954)
Investment income, net of investment expenses						15,884	15,884
Change in restricted assets		17,786	(394)	(216,567)	13,510		(185,665)
Other non-operating expenses	10						10
Net cash provided (used) by investing activities	**13,912**	**20,923**	**14,550**	**(216,465)**	**26,082**	**22,503**	**(118,495)**
Net increase (decrease) in cash	**43,396**	**113,202**	**120,355**	**69,108**	**81,875**	**(21,678)**	**406,258**
Cash - beginning of year	254,609	158,830	700,743	185,552	413,486	33,352	1,746,572
Cash - end of year	**$ 298,005**	**$272,032**	**$ 821,098**	**$ 254,660**	**$ 495,361**	**$ 11,674**	**$2,152,830**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Reconciliation of income (loss) from operations to net cash provided by (used) operating activities:							
Income from operations	$ 56,746	$ 76,934	$123,215	$146,916	$159,404	$(55,830)	$ 507,385
Adjustments to reconcile income from operations to net cash provided by operating activities:							
Depreciation and amortization expense	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Provision for uncollectible accounts	90,236	26,703	41,086	90,105	62,546	7,973	318,649
Impairment of capital assets	2,119						2,119
Changes in operating assets and liabilities:							
Patient accounts receivable	(100,333)	(51,510)	(9,225)	(155,184)	(63,699)	(20,156)	(400,107)
Other receivables	(5,649)	20,924	(65)	(1,523)	(8,426)	26,659	31,920
Inventory	(3,084)	(622)	(4,070)	(85)	388	(389)	(7,862)
Prepaid expenses and other assets	(6,210)	422	(7,198)	(1,046)	3,377	(521)	(11,176)
Accounts payable and accrued expenses	6,495	5,374	6,317	19,871	9,581	(556)	47,082
Accrued salaries and benefits	18,437	7,162	16,298	8,242	10,311	(227)	60,223
Third-party payor settlements	14,875	61,079	16,781	23,026	1,831	1,875	119,467
Other liabilities	(874)	(866)	20,218	607	342	5,784	25,211
Pension benefits	22,538	12,349	28,358	9,463	13,725	(9,704)	76,729
Net cash provided (used) by operating activities	**$181,224**	**$223,315**	**$357,784**	**$196,541**	**$287,903**	**$(15,152)**	**$1,231,615**
Supplemental noncash activities information:							
Payables for property and equipment	$5,837	$1,216	$7,229	$6,455	$18,153	$1,345	$40,235
Capital assets acquired through capital lease obligations				2,345			2,345
Bond retirements					(497)		(497)
Amortization of bond premium	845	183	371	591	21		2,011
Property and equipment transfers from (to) the University	(229)	36,339					36,110
Change in fair value of interest rate swaps			(4,873)		273		(4,600)
Other borrowings from conversion of interest rate swap to hedging derivative			14,025				14,025
Refinancing of University and Campus payable with long-term debt	22,375	7,530	94,808	92,712			217,425
Advances from University	(6,560)			(33,188)			(39,748)

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTER POOLED GROUP

Notes to Financial Statements

Year ended June 30, 2015

1. ORGANIZATION

The University of California, Medical Centers (the "Medical Centers") are part of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"). The Medical Centers provide educational and clinical opportunities for students in the University's Schools of Medicine ("Schools of Medicine") and offer a comprehensive array of medical services including tertiary and quaternary care services.

The financial statements of the Medical Centers present the financial position, and the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the Medical Centers.

The Regents are the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), a private, not-for-profit 501(c)(3) corporation. A Board of Directors comprised primarily of independent directors serves as the governing body of CHRCO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve CHRCO's strategic plan and budget. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. San Francisco provides certain management services for CHRCO. Since the University has the ability to impose its will on CHRCO as the sole corporate and voting member, under accounting requirements, CHRCO combined with its foundation is a discretely presented component unit of the University of California.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Medical Centers and CHRCO have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board ("GASB"). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting.

The significant accounting policies of the University are as follows:

Cash. All University operating entities maximize the returns on their cash balances by investing in a Short Term Investment Pool ("STIP") managed by the Treasurer of The Regents. The Regents are responsible for managing the University's STIP and establishing the investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of the Medical Centers' cash is deposited into the STIP, and all Medical Center deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominately held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, the Medical Centers have not experienced any losses on these accounts.

Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net position.

Additional information on cash and investments can be obtained from the 2014-2015 annual report of the University.

CHRCO includes certain investments in highly liquid debt instruments with original maturities of three months or less as cash and cash equivalents.

Investments. Investments are reported at fair value. The Medical Centers' investments consist of investments in the UC Regents Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). CHRCO's investments consist of investments in the UCSF Foundation's ("UCSFF") Endowed Investment Pool ("EIP"), the University's STIP and other investment securities. The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

Inventory. The Medical Centers' and CHRCO's inventory consists primarily of pharmaceuticals and medical supplies which are stated on a first-in, first-out basis at the lower of cost or market.

Prepaid Expenses and Other Assets. The Medical Centers' and CHRCO's prepaid expenses are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment and maintenance contracts.

Restricted Assets, Donor Funds. The Medical Centers and CHRCO have been designated as the trustees for several charitable remainder trusts. The trusts are established by donors to provide income to designated beneficiaries, generally for life. Upon maturity, the principal in the trusts will be distributed to the Medical Centers and CHRCO. Trust assets are recorded at fair value.

The Medical Centers and CHRCO have been named the irrevocable beneficiaries for several charitable remainder trusts for which the Medical Centers and CHRCO are not the trustees. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the Medical Centers or CHRCO. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The Medical Centers and CHRCO recognize contribution revenue when all eligibility requirements have been met.

Capital Assets. The Medical Centers' and CHRCO's capital assets are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. The range of the estimated useful lives for the Medical Centers' buildings and land improvements is 10 to 40 years and 5 to 20 years for equipment. The range of estimated useful lives for CHRCO is 5 to 40 years for land and building improvements and 2 to 10 years for equipment. University guidelines mandate that land purchased with the Medical Centers' funds is recorded as an asset of the Medical Centers. Land utilized by the Medical Centers but purchased with other sources of funds is recorded as an asset of the University. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized by the Medical Centers if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

Investments in Joint Ventures. Certain Medical Centers have entered into joint-venture arrangements with various third-party entities that include home health services, cancer center operations and a health maintenance organization. Investments in these joint ventures are recorded using the equity method.

Interest Rate Swap Agreements. The Medical Centers have entered into interest rate swap agreements to limit the exposure of their variable-rate debt to changes in market interest rates. These derivative financial instruments are agreements that involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense.

Interest rate swaps are recorded at fair value as either assets or liabilities in the statements of net position. The Medical Centers have determined that the market interest rate swaps are hedging derivatives that hedge future cash flows. Under hedge accounting, changes in the fair value are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values).

At the time of pricing certain interest rate swaps, the fixed rate of the swaps was off-market such that the Medical Centers received an up-front payment. As such, the swaps are composed of a derivative instrument, an at-the-market swap and a companion instrument, a borrowing, represented by the up-front payment. The unamortized amount of the borrowing is included in the current and noncurrent portion of debt and amortized as interest expense over the term of the bonds.

Bond Premium. The premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

Self-Insurance Programs. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer.

Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. While the Medical Centers participate in the self-insurance programs, they are administered by the University of California Office of the President. Accordingly, the self-insurance funding and liabilities are not included in the accompanying financial statements.

CHRCO has a claims-made policy for medical malpractice claims. Under this policy, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. CHRCO has a high-deductible per occurrence policy for workers' compensation with no limit, and is effectively self-insured due to the high deductible. CHRCO has a self-insured preferred provider organization plan for health claims.

Deferred Outflows of Resources and Deferred Inflows of Resources. The Medical Centers and CHRCO classify gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and recognize gains and losses as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

The Medical Centers classify an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease in the fair value of hedging derivatives as deferred outflows of resources.

Changes in net pension liability not included in pension expense, including proportionate shares of collective pension expense from the University of California Retirement Plan, are reported as deferred outflows of resources or deferred inflows of resources related to pensions for the Medical Centers.

Net Position. Net position is required to be classified for accounting and reporting purposes in the following categories:

Net Investment in Capital Assets — Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted — The Medical Centers and CHRCO classify net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable — Net position subject to externally imposed restrictions that must be retained in perpetuity.

Expendable — Net position whose use is subject to externally imposed restrictions that can be fulfilled by actions pursuant to those restrictions or that expire by the passage of time.

Unrestricted — Net positions that are neither restricted nor invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by management or The Regents. Substantially, all unrestricted net positions are allocated for operating initiatives or programs, or for capital programs.

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Contributions received by CHRCO may be designated by the donor for restricted purposes or may be without restriction as to their use. Contributions restricted by donors as to use or time period are reported as restricted until used in a manner designated or upon expiration of the time period. Income and gains on permanently restricted net position are maintained in restricted expendable net position until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard prudence prescribed by the Uniform Prudent Management of Institutional Funds Act. Income and gains on permanently restricted net position that are available for expenditure are $8.1 million and $7.6 million as of June 30, 2015 and 2014, respectively.

Revenues and Expenses. Revenues received through conducting the programs and services of the Medical Centers and CHRCO are presented in the financial statements as operating revenue. Revenues include professional fees earned by the faculty physicians practicing as the UCSF Medical Group.

Operating revenues include net patient service revenue reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. The Medical Centers and CHRCO believe that they are in compliance with all applicable laws and regulations related to the Medicare and Medi-Cal programs.

The Medical Centers and CHRCO estimate and recognize a provision for uncollectible accounts based on historical experience.

CHRCO receives grants from federal agencies and other third-parties. Government grants are reimbursed based on actual expenses incurred or units of service provided. Revenue from these grants is recognized either when expenses are incurred or when services are provided, depending on the grant award agreements.

Substantially, all of the Medical Centers' operating expenses are directly or indirectly related to patient care activities. CHRCO's operating expenses relate to patient care and research activities.

Non-operating revenues and expenses include Hospital Fee Program grants, interest income and expense, federal interest subsidies, gains on bond retirements, the gain or loss on the disposal of capital assets, and other non-operating revenue and expenses.

Health system support, donated assets, proceeds from the Federal Emergency Management Agency, contributions for building programs, transfers to the University and changes in allocation for pension payable to the University are classified as other changes in net position.

Retiree Health Benefits Expense. The University established the University of California Retiree Health Benefit Trust ("UCRHBT") to allow certain University locations and affiliates, including the Medical Centers, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets.

The UCRHBT provides retiree health benefits to retired employees of the Medical Centers. Contributions from the Medical Centers to the UCRHBT are effectively made to a single-employer health plan administered by the University as a cost-sharing plan. The Medical Centers are required to contribute at a rate assessed each year by the University. As a result, the Medical Centers' required contributions are recognized as an expense in the statements of revenues, expenses and changes in net position.

Pension Obligations. The University of California Retirement Plan ("UCRP") provides retirement benefits to retired employees of the Medical Centers. The Medical Centers are required to contribute to UCRP at a rate set by The Regents. Pension obligations include the Medical Centers' share of the University's net pension liability for UCRP. The Medical Centers' share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon their proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in the fiduciary net position of UCRP have been measured consistent with the accounting policies used by the Plan. For purposes of measuring UCRP's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

Pension obligations also include the net pension liability for the Retirement Plan for Children's Hospital & Research Center Oakland ("CHRCO Plan"). The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the CHRCO Plan. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Pension Payable to University. Additional deposits in UCRP have been made using University resources to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by the University, are being repaid by the Medical Centers, plus accrued interest, over a thirty-year period through a supplemental pension assessment. The Medical Centers' share of the internal loans has been determined based upon their proportionate share of covered compensation for the fiscal year. Supplemental pension assessments are reported as pension expense by the Medical Centers. Additional deposits in UCRP by the University, and changes in the Medical Centers' share of the internal loans, are reported as other changes in net position.

Charity Care. The Medical Centers and CHRCO provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Centers also provide services to other indigent patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. Additionally, UC Davis Medical Center, UC Irvine Medical Center and UC San Diego Medical Center serve as county hospitals within their respective metropolitan area and, as a result, serve patients without insurance who have not completed the formal process of applying for charity but are considered indigent and are reported as charity care recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

Transactions with the University and University Affiliates. The Medical Centers have various transactions with the University and University affiliates. The University, as the primary reporting entity, has at its discretion the ability to transfer cash from the Medical Centers at will (subject to certain restrictive covenants or bond indentures) and to use that cash at its discretion. The Medical Centers record expense transactions where direct and incremental economic benefits are received by the Medical Centers. Payments, which constitute subsidies or payments for which the Medical Centers do not receive direct and

incremental economic benefit, are recorded as health system support in the statements of revenues, expenses and changes in net position.

Certain expenses are allocated from the University to the Medical Centers. Allocated expenses reported as operating expenses in the statements of revenues, expenses and changes in net position are management's best estimates of the Medical Centers' arms-length payment of such amounts for its market-specific circumstances. To the extent that payments to the University exceed an arms-length estimated amount relative to the benefit received by the Medical Centers, they are recorded as health system support.

Compensated Absences. The Medical Centers and CHRCO accrue annual leave, including employer related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Tax Exemption. The University of California is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. CHRCO is recognized as a tax-exempt organization under Section 501(c)(3) of the IRC, exempt from federal and state income taxes.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes these estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

Reclassifications. Certain reclassifications have been made to the 2014 financial information to conform to the 2015 financial statement presentation.

New Accounting Pronouncements. In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements. The University is evaluating the effect that Statement No. 72 will have on its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the Medical Centers' fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. The Medical Centers are evaluating the effect that Statement 73 will have on their financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the Medical Centers' fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the Medical Centers to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefit liability be included in the retiree health benefit expense in the period of change. Currently, the Medical Centers do not report an obligation to UCRHBT; however, under Statement No. 75, the Medical Centers as a participant of UCRHBT will report its share of net retiree health benefit liability, deferred inflows of resources, deferred outflows of resources and retiree health benefit expense based on its proportionate share of covered compensation for the fiscal year. The Medical Centers are evaluating the effect that Statement No. 75 will have on their financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the Medical Centers' fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Medical Centers are evaluating the effect that Statement 76 will have on their financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for the University's fiscal year beginning July 1, 2016. This statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements. The Medical Centers are evaluating the effect that Statement 77 will have on their financial statements.

2. INVESTMENTS

The composition of investments, by investment type at June 30, is as follows:

(in thousands of dollars)	LOS ANGELES	CHRCO	
	2015	**2015**	**2014**
Equity securities:			
Domestic			$ 33,330
Equity securities			**33,330**
Fixed- or variable-income securities:			
U.S. government guaranteed:			
U.S. Treasury bills, notes and bonds		$ 299	14,055
U.S. government guaranteed		**299**	**14,055**
Other U.S. dollar denominated:			
Corporate bonds			24,823
U.S. agencies - asset-backed securities		218	6,987
Corporate - asset-backed securities		9	35,717
Supranational/foreign			6,933
Other			46
Other U.S. dollar denominated		**227**	**74,506**
Commingled funds:			
U.S. equity funds		1,863	2,861
Non-U.S. equity funds		310	81,311
U.S. bond funds		311	942
Non-U.S. bond funds			184
Money market funds		70,375	3,266
Balanced funds	$256,750	200,132	
Commingled funds	**256,750**	**272,991**	**88,564**
Publicly traded real estate investment trusts		420	1,218
Total investments	**256,750**	**273,937**	**211,673**
Less: Current portion		(70,280)	(10,695)
Less: Reported as restricted assets in donor funds		(44,218)	(42,460)
Noncurrent portion	**$256,750**	**$159,439**	**$158,518**

The University of California managed commingled funds (UC pooled funds) serve as the core investment vehicle for the Medical Centers. A description of the funds used is as follows:

TRIP. The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and

liquid alternative strategies. It allows participants to maximize the return on their long-term capital. Its objective is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. UCLA Medical Center's investment in TRIP is classified as commingled balanced funds. TRIP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in TRIP was $204.4 million at June 30, 2015.

Investments in TRIP are committed for a three-year lock-up period and would therefore not be available to the UCLA Medical Center until the end of such lock-up period. After the lock-up period expires, one calendar quarter notice to the Campus will be required for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month. Investments into TRIP are subject to certain withdrawal guidelines such as limiting the withdrawals to 10% of the current value of TRIP in any one quarter.

GEP. The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scales. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. UCLA Medical Center's investment in GEP is classified as commingled balanced funds. GEP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in GEP was $52.4 million at June 30, 2015.

CHRCO. CHRCO invests primarily in the UCSF Foundation's Endowed Investment Pool (EIP) and STIP. STIP is classified as a money market fund. EIP is UCSF Foundation's primary investment vehicle for endowed gifts. The Foundation's primary investment objective is growth of principal sufficient to preserve purchasing power and provide income to support current and future activities. Investments in EIP include high quality, readily marketable equity and fixed-income securities; other types of investments, including derivative instruments such as financial futures, may be made at the direction of UCSF Foundation's Investment Committee. EIP represents investments in a unitized pool. CHRCO's investment in EIP is classified as commingled balanced funds. Transactions within each individual endowment in the pool are based on the unit market value at the beginning or end of the month during which the transaction takes place for withdrawals and additions, respectively.

Investments in the EIP with the UCSF Foundation are committed to a one year lock-up period ending June 30, 2016, at which point termination of the agreement will require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines such as providing a forecasted schedule of cash withdrawals 90 days prior to the start of each fiscal year.

Investment Risk Factors

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed-income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risk, inflation and changes in interest rates. UCLA Medical Center and CHRCO have established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

Credit Risk

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the security price to decline. These circumstances may arise due to a variety of factors, such as financial weakness or bankruptcy.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent rating agencies, for example Moody's Investor Service (Moody's) or Standard & Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

The credit risk profile for fixed- or variable-income securities at June 30, 2015 and 2014 are as follows:

(in thousands of dollars)	CHRCO	
	2015	**2014**
Fixed- or variable-income securities:		
U.S. government guaranteed	$ 299	$14,055
Other U.S. dollar denominated:		
AAA		33,888
AA	9	16,237
A		15,993
BBB		7,357
Not rated	218	1,031
Commingled funds:		
U.S. bond funds: Not rated	311	942
Non-U.S. bond funds: Not rated		184
Money market funds: Not rated	70,375	3,266

UCLA Medical Center's commingled funds (including GEP and TRIP) and CHRCO's balanced funds are not rated.

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

Substantially, all of CHRCO's investments are registered in the name of the UCSF Foundation. UCLA Medical Center's investments are registered in the name of the University.

Concentration of credit risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools and other pooled investments are excluded from this review. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents and the UCSF Foundation are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of investments that comprise more than 5% of total investments.

Interest rate risk

Interest rate risk is the risk that the fair value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

The effective durations for fixed- or variable-income securities at June 30, 2015 and 2014 are as follows:

	CHRCO	
	2015	**2014**
U.S. government guaranteed		
U.S. Treasury bills, notes and bonds	3.8	2.3
Corporate bonds		2.4
U.S. agencies - asset-backed securities		2.8
Corporate - asset-backed securities	2.7	1.6
Supranational/foreign		2.7
Other		4.3

CHRCO considers the effective duration for money market funds to be zero, and effective duration information for the EIP is unavailable.

Investments include various mortgage-backed securities, collateralized mortgage obligations and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2015 and 2014, the fair values of such investments are as follows:

(in thousands of dollars)	CHRCO	
	2015	**2014**
Mortgage-backed securities		$ 2,239
Collateralized mortgage obligations		9,222
Other asset-backed securities	$218	28,627
Callable bonds		4,921
Total	**$218**	**$45,009**

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In rising interest rate environments, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. CHRCO must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2015 and 2014, the effective durations for these securities are as follows:

	CHRCO	
	2015	**2014**
Mortgage-backed securities		3.3
Collateralized mortgage obligations		2.2
Other asset-backed securities	2.7	3.9
Callable bonds		3.8

Foreign Currency Risk. The University's strategic asset allocation policy for TRIP and GEP as well as the UCSF Foundation's asset allocation strategy includes allocations to non-U.S. equities and non-dollar denominated bonds. Exposure from foreign currency risk results from investments in foreign currency-denominated equity, fixed-income and private equity securities.

At June 30, 2015 and 2014, CHRCO is subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)		
	2015	**2014**
Commingled funds:		
Various currency denominations:		
Non-U.S. equity funds	$310	$80,973
Non-U.S. bond funds		184
Total exposure to foreign currency risk	**$310**	**$81,157**

3. NET PATIENT SERVICE REVENUE

The Medical Centers and CHRCO have agreements with third-party payors that provide for payments at amounts different from the Medical Centers' and CHRCO's established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Medicare patient revenues include traditional reimbursement under Title XVIII of the Social Security Act (non-risk) or Medicare capitated contract revenue (risk).

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The Medical Centers and CHRCO do not believe that there are significant credit risks associated with the Medicare program.

The Medical Centers and CHRCO are reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Centers' and CHRCO's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Centers have received final notices from the Medicare fiscal intermediary through June 30, 2003 for UC Davis Medical Center; through June 30, 2007, for UC Irvine Medical Center; through June 30, 2007, for Ronald Reagan UCLA Medical Center; through June 30, 2010, for the Santa Monica Hospital; through June 30, 2014, for the Resnick Neuropsychiatric Hospital; through June 30, 2008, for UCSD Medical Center; through June 30, 2002, for the UCSF Medical Center; and through December 31, 2012, for CHRCO. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included in the statements of net position as third-party payor settlements.

Medi-Cal. The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service ("FFS") inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California. The Waiver Program was enacted in two five-year phases, the first covering 2006 through 2010 and the second covering 2011 through 2015. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. The Medical Centers are reimbursed at tentative settlement amounts with final settlement of such items determined after submission of annual filings and audit thereof by the state. Certain payments under the Waiver Program are based on allocation of pooled funds amongst all participating public hospitals in the state and are subject to change based on the audit results of the other participating public hospitals. The Medical Centers have received final settlement through 2007. The state is in the process of conducting their audits of the subsequent years of the Waiver Program. The results of these audits have yet to be finalized and any amounts due to or from Medi-Cal have not been determined. Estimated receivables and payables related to all Waiver Program reporting periods are included in the statements of net position as third-party payor settlements.

CHRCO has a contractual agreement with the Medi-Cal program, which includes patients that qualify for California Children's Services. CHRCO is an essential Medi-Cal and California Children's Services (CCS) provider. Inpatient services are reimbursed by the All Patient Refined Diagnosis Related Group (APR DRG), at a per-case rate based upon acuity. Outpatient services are paid via fee schedules. In addition, CHRCO is the recipient of Medi-Cal funds under various state of California programs, in particular the Private Hospital Supplemental Fund and DSH. The state of California funds eligible hospitals based upon the total pool of funding available and a formula for distribution. The legislative funding is subject to retroactive reductions and potential future elimination.

Assembly Bill 1383. State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established a series of Medicaid supplemental payments funded through a Quality Assurance Fee and a Hospital Fee Program, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program was April 1, 2009, through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program was extended for three years starting on January 1, 2014 with SB 239. The Hospital Fee Program makes supplemental payments to hospitals for

various health care services and supports the state's effort to maintain health care coverage for children. The Hospital Fee Program is funded by a Quality Assurance Fee paid by participating hospitals and matching federal funds. All of the Medical Centers, except CHRCO, are designated as public hospitals, and are exempt from paying the Quality Assurance Fee. CHRCO recognized $93.8 million and $19.6 million of patient service revenue under the Hospital Fee Program for the years ended June 30, 2015 and 2014. CHRCO paid $25.5 million and $10.9 million in Quality Assurance Fees for the years ended June 30, 2015 and 2014, respectively. The Medical Centers, including CHRCO, receive supplemental payments under the Hospital Fee Program.

Assembly Bill 915. State of California Assembly Bill 915, Public Hospital Outpatient Services Supplemental Reimbursement Program, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures, which are matched with federal Medicaid funds.

Senate Bill 1732. State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to DSH for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, 2015 and 2014, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Centers' Medi-Cal utilization rate.

Other. The Medical Centers and CHRCO have entered into agreements with numerous nongovernment third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

- Commercial insurance companies that reimburse the Medical Centers and CHRCO for reasonable and customary charges. Workers' compensation plans pay negotiated rates and are reported as contract (discounted or per-diem) revenue.
- Managed care contracts such as those with HMOs and PPOs that reimburse the Medical Centers and CHRCO at contracted or per-diem rates, which are usually less than full charges. CHRCO contracts with various Medi-Cal managed care plans in the state. These plans operate as state-licensed HMOs that provide health care services on a prepaid basis to enrolled Medi-Cal members residing in the county. Eligible members select the plan in which they wish to participate.
- Capitated contracts with health plans that reimburse the Medical Centers on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Centers assume a certain financial risk, as the contract requires patient treatment for all covered services. Expected losses on capitated agreements are accrued when probable and can be reasonably estimated.
- Certain health plans that have established a shared-risk pool where the Medical Centers and CHRCO share in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Centers and CHRCO may assume the risk of certain health care utilization costs, as determined in the related agreements. Differences between the final contract settlement and the amount estimated as receivable or payable relating to the shared-risk arrangements are recorded in the year of final settlement.
- Counties in the state of California that reimburse the Medical Centers and CHRCO for certain indigent patients covered under county contracts.
- CHRCO receives funding from Alameda county, which is leveraged with state matching funds. CHRCO received $47.3 million and $7.1 million under these programs for the years ended June 30, 2015 and 2014, respectively.

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate or case rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications.

Amounts due from Medicare and Medi-Cal as a percentage of net patient accounts receivable at June 30 are as follows:

(shown as percentage)	**MEDICARE**		**MEDI-CAL**	
	2015	**2014**	**2015**	**2014**
Davis	19.4%	20.9%	17.2%	16.6%
Irvine	18.3	21.1	14.8	22.5
Los Angeles	13.2	16.5	6.0	7.2
San Diego	12.0	18.3	8.1	11.2
San Francisco	12.3	13.5	7.0	7.2
CHRCO	0.2	0.2	45.8	61.6

For the years ended June 30, net patient service revenue included amounts due to favorable (or unfavorable) cost report settlements with Medicare, Medi-Cal, County Medical Services Program and changes in estimate for settlements related to Medi-Cal as follows:

(in thousands of dollars)

	2015	2014
Davis	$ 29,924	$21,209
Irvine	(7,502)	(27,260)
Los Angeles	30,784	13,028
San Diego	26,008	26,157
San Francisco	35,197	56,976
CHRCO	1,906	(51)
Total	**$116,317**	**$90,059**

Net patient accounts receivable and net patient service revenues are presented net of uncollectible accounts as follows:

	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE at June 30		PATIENT SERVICE REVENUE ALLOWANCE for the year ending June 30	
	2015	2014	2015	2014
Davis	$ 52,941	$ 52,141	$ 96,056	$ 90,236
Irvine	40,232	37,668	22,806	26,703
Los Angeles	60,616	72,080	25,702	41,086
San Diego	51,289	60,451	43,790	90,105
San Francisco	33,809	21,370	63,859	62,546
CHRCO	12,399	12,702	6,283	7,973
Total	**$251,286**	**$256,412**	**$258,496**	**$318,649**

Net patient service revenue by major payors for the years ended June 30, are as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2015							
Medicare (non-risk)	$ 382,173	$197,306	$ 457,634	$ 270,560	$ 489,793	$ 2,110	$1,799,576
Medicare (risk)		38,688	76,295		3,502		118,485
Medi-Cal (non-risk)	344,951	210,438	170,417	265,500	210,640	330,742	1,532,688
Contract (discounted or per-diem)	831,477	437,400	1,452,243	873,814	1,838,747	158,934	5,592,615
Contract (capitated)	132,424				3,819		136,243
County	950	7,245		11,990	4,093	11,135	35,413
Non-sponsored/self-pay	1,470	15,518	10,561	1,682	29,250	1,270	59,751
Total	**$1,693,445**	**$906,595**	**$2,167,150**	**$1,423,546**	**$2,579,844**	**$504,191**	**$9,274,771**
2014							
Medicare (non-risk)	$ 369,689	$217,655	$ 439,069	$ 259,442	$ 460,253	$ 1,722	$1,747,830
Medicare (risk)			36,773		1,553		38,326
Medi-Cal (non-risk)	302,902	213,918	153,316	213,175	195,317	198,733	1,277,361
Contract (discounted or per-diem)	727,415	427,036	1,270,427	722,486	1,614,784	149,920	4,912,068
Contract (capitated)	138,286				3,992		142,278
County	17,185	1,937		30,194	14,119	4,070	67,505
Non-sponsored/self-pay	4,039	1,442	15,019	3,351	18,667	3,378	45,896
Total	**$1,559,516**	**$861,988**	**$1,914,604**	**$1,228,648**	**$2,308,685**	**$357,823**	**$8,231,264**

4. CHARITY CARE

Information related to the Medical Centers' and CHRCO's charity care, as defined within the policy footnote, for the years ended June 30 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2015							
Charity care at established rates	$114,002	$39,550	$5,473	$41,199	$25,923	$78,772	$304,919
Estimated cost of charity care	17,096	10,333	2,317	12,298	6,417	34,951	83,412
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	199,255	72,301	70,631	41,058	70,374	16,096	469,715
2014							
Charity care at established rates	$134,601	$89,887	$27,686	$97,592	$56,672	$79,848	$486,286
Estimated cost of charity care	25,661	17,828	11,110	28,246	13,998	36,126	132,969
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	218,726	58,212	69,580	19,457	98,785	15,311	480,071

Included within the table above are the estimated cost of charity care for self-pay patients presumed to qualify for charity care in the amounts of $4.6 million for UC Davis Medical Center, $8.1 million for UC Irvine Medical Center and $1.4 million for UC San Diego Medical Center for the year ended June 30, 2015. Included within the table above are the estimated costs of charity care for self-pay patients presumed to qualify for charity care in the amounts of $6.0 million for UC Davis Medical Center, $12.6 million for UC Irvine Medical Center and $24.0 million for UC San Diego Medical Center for the year ended June 30, 2014.

5. RESTRICTED ASSETS, DONOR FUNDS

Restricted assets due to donor restrictions are invested and remitted to the Medical Centers and CHRCO in accordance with the donors' wishes. Securities are held by the trustee in the name of the University. The trust agreements permit trustees to invest in equity and fixed-income securities, in addition to real property.

The composition of restricted assets at June 30 is as follows:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	CHRCO	TOTAL
2015				
STIP and Cash	$ 3,073	$7,329	$11,544	$21,946
General Endowment Pool	8,387		39,752	48,139
Mutual funds	30			30
Charitable remainder trusts	723		3,525	4,248
Total	**$12,213**	**$7,329**	**$54,821**	**$74,363**
2014				
STIP and Cash	$ 3,371	$9,959	$10,893	$24,223
General Endowment Pool	8,477			8,477
Mutual funds	30		42,460	42,490
Charitable remainder trusts	791			791
Total	**$12,669**	**$9,959**	**$53,353**	**$75,981**

Donor restricted funds for the years ended June 30, are available for the following purposes:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	CHRCO	TOTAL
2015				
Capital projects	$ 1,231	$ 654	$ 2,143	$ 4,028
Endowments	662		24,619	25,281
Operations	10,320	6,675	28,059	45,054
Total	**$12,213**	**$7,329**	**$54,821**	**$74,363**
2014				
Capital projects	$ 1,107	$3,174	$ 2,284	$ 6,565
Endowments	337		24,120	24,457
Operations	11,225	6,785	26,949	44,959
Total	**$12,669**	**$9,959**	**$53,353**	**$75,981**

Gifts and pledges are included in the financial statements of the University and transferred to the Medical Centers and CHRCO when used. Additional gift funds and pledges received by the related campus or foundation but not used by the Medical Centers and CHRCO are not included in the financial statements of the Medical Centers and CHRCO.

6. CAPITAL ASSETS

The Medical Centers' and CHRCO's capital asset activity for the years ended June 30 is as follows:

(in thousands of dollars)

DAVIS	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 36,675			$ 36,675			$ 36,675
Buildings and improvements	1,305,713	$ 9,341		1,315,054	$ 5,752		1,320,806
Equipment	406,250	64,521	$(37,205)	433,566	34,642	$(61,946)	406,262
Construction in progress	41,263	(17,499)	(2,048)	21,716	5,783	(1,350)	26,149
Capital assets, at cost	**$1,789,901**	**$56,363**	**$(39,253)**	**$1,807,011**	**$46,177**	**$(63,296)**	**$1,789,892**

	2013	DEPRECIATION	DISPOSALS	2014	DEPRECIATION	DISPOSALS	2015
ACCUMULATED DEPRECIATION							
Buildings and improvements	$ 438,823	$40,221		$ 479,044	$40,223		$ 519,267
Equipment	273,351	45,707	$ (35,653)	283,405	44,855	$(60,715)	267,545
Accumulated depreciation	712,174	**$85,928**	**$(35,653)**	762,449	**$85,078**	**$(60,715)**	786,812
Capital assets, net	**$1,077,727**			**$1,044,562**			**$1,003,080**

(in thousands of dollars)

IRVINE	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 12,418			$ 12,418			$ 12,418
Buildings and improvements	779,336	$40,835		820,171	$18,819		838,990
Equipment	281,304	28,140	$(6,877)	302,567	35,732	$(13,904)	324,395
Construction in progress	12,837	5,270		18,107	(3,733)		14,374
Capital assets, at cost	**$ 1,085,895**	**$74,245**	**$(6,877)**	**$1,153,263**	**$50,818**	**$(13,904)**	**$1,190,177**

	2013	DEPRECIATION	DISPOSALS	2014	DEPRECIATION	DISPOSALS	2015
ACCUMULATED DEPRECIATION							
Buildings and improvements	$216,039	$30,005		$246,044	$25,438		$271,482
Equipment	143,878	35,361	$(6,393)	172,846	32,272	$ (13,734)	191,384
Accumulated depreciation	359,917	**$65,366**	**$(6,393)**	418,890	**$57,710**	**$(13,734)**	462,866
Capital assets, net	**$725,978**			**$734,373**			**$727,311**

(in thousands of dollars)

LOS ANGELES	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 51,924			$ 51,924			$ 51,924
Buildings and improvements	1,837,352	$ 7,843		1,845,195	$ 90,538	$ (106)	1,935,627
Equipment	603,099	78,948	$(9,385)	672,662	30,507	(52,297)	650,872
Construction in progress	67,497			67,497	(16,509)		50,988
Capital assets, at cost	**$2,559,872**	**$86,791**	**$(9,385)**	**$2,637,278**	**$104,536**	**$(52,403)**	**$2,689,411**

	2013	DEPRECIATION	DISPOSALS	2014	DEPRECIATION	DISPOSALS	2015
ACCUMULATED DEPRECIATION							
Buildings and improvements	$ 341,266	$ 50,765	$ (27)	$ 392,004	$ 53,251	$ (373)	$ 444,882
Equipment	307,033	75,304	(8,989)	373,348	77,695	(51,879)	399,164
Accumulated depreciation	648,299	**$126,069**	**$(9,016)**	765,352	**$130,946**	**$(52,252)**	$844,046
Capital assets, net	**$1,911,573**			**$1,871,926**			**$1,845,365**

(in thousands of dollars)

SAN DIEGO	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 8,641			$ 8,641			$ 8,641
Buildings and improvements	765,371	$ 25,473		790,844	$ 15,479	$ (3)	806,320
Equipment	263,818	22,128	$(7,323)	278,623	24,176	(8,367)	294,432
Construction in progress	270,938	218,579	(437)	489,080	184,755		673,835
Capital assets, at cost	**$1,308,768**	**$266,180**	**$(7,760)**	**$1,567,188**	**$224,410**	**$(8,370)**	**$1,783,228**

	2013	DEPRECIATION	DISPOSALS	2014	DEPRECIATION	DISPOSALS	2015
ACCUMULATED DEPRECIATION							
Buildings and improvements	$258,909	$27,304		$ 286,213	$27,738	$ (30)	$ 313,921
Equipment	140,991	28,845	$(6,144)	163,692	28,909	(8,070)	184,531
Accumulated depreciation	399,900	**$56,149**	**$(6,144)**	449,905	**$56,647**	**$(8,100)**	$498,452
Capital assets, net	**$908,868**			**$1,117,283**			**$1,284,776**

(in thousands of dollars)

SAN FRANCISCO	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 118,836	$ 29		$ 118,865	$ 643		$ 119,508
Buildings and improvements	997,684	30,155		1,027,839	1,198,492		2,226,331
Equipment	545,687	16,423	$(35,774)	526,336	252,785	$(13,745)	765,376
Construction in progress	836,337	335,859	(179)	1,172,017	(1,093,418)		78,599
Capital assets, at cost	**$ 2,498,544**	**$382,466**	**$(35,953)**	**$ 2,845,057**	**$ 358,502**	**$(13,745)**	**$3,189,814**

	2013	DEPRECIATION	DISPOSALS	2014	DEPRECIATION	DISPOSALS	2015
ACCUMULATED DEPRECIATION							
Buildings and improvements	$ 576,701	$42,853		$ 619,554	$ 60,036		$ 679,590
Equipment	291,536	55,670	$(35,130)	312,076	67,998	$(6,712)	373,362
Accumulated depreciation	868,237	**$98,523**	**$(35,130)**	931,630	**$128,034**	**$(6,712)**	1,052,952
Capital assets, net	**$1,630,307**			**$1,913,427**			**$2,136,862**

(in thousands of dollars)

CHRCO	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 16,290			$ 16,290	$ (376)		$ 15,914
Buildings and improvements	255,317	$ 15,320	$ (70)	270,567	2,967	$ (355)	273,179
Equipment	141,973	104,947	(4,191)	242,729	7,098	(8,885)	240,942
Construction in progress	74,215	(48,332)		25,883	12,133		38,016
Capital assets, at cost	**$487,795**	**$ 71,935**	**$ (4,261)**	**$555,469**	**$21,822**	**$(9,240)**	**$568,051**
	2013	**DEPRECIATION**	**DISPOSALS**	**2014**	**DEPRECIATION**	**DISPOSALS**	**2015**
ACCUMULATED DEPRECIATION							
Buildings and improvements	$142,483	$ 7,940	$ (50)	$150,373	$ 8,754		$159,127
Equipment	103,439	22,000	(3,975)	121,464	28,128	$(8,818)	140,774
Accumulated depreciation	245,922	**$29,940**	**$(4,025)**	271,837	**$36,882**	**$(8,818)**	299,901
Capital assets, net	**$241,873**			**$283,632**			**$268,150**

(in thousands of dollars)

TOTAL	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	$ 244,784	$ 29		$ 244,813	$ 267		$ 245,080
Buildings and improvements	5,940,773	128,967	$ (70)	6,069,670	1,332,047	$ (464)	7,401,253
Equipment	2,242,131	315,107	(100,755)	2,456,483	384,940	(159,144)	2,682,279
Construction in progress	1,303,087	493,877	(2,664)	1,794,300	(910,989)	(1,350)	881,961
Capital assets, at cost	**$9,730,775**	**$ 937,980**	**$(103,489)**	**$10,565,266**	**$ 806,265**	**$(160,958)**	**$11,210,573**
	2013	**DEPRECIATION**	**DISPOSALS**	**2014**	**DEPRECIATION**	**DISPOSALS**	**2015**
ACCUMULATED DEPRECIATION							
Buildings and improvements	$1,974,221	$199,088	$ (77)	$2,173,232	$215,440	$ (403)	$2,388,269
Equipment	1,260,228	262,887	(96,284)	1,426,831	279,857	(149,928)	1,556,760
Accumulated depreciation	3,234,449	**$461,975**	**$(96,361)**	3,600,063	**$495,297**	**$(150,331)**	3,945,029
Capital assets, net	**$6,496,326**			**$6,965,203**			**$7,265,544**

Equipment under financing obligations and related accumulated amortization at June 30 were as follows:

(in millions of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2015						
Equipment under financing obligations	$84	$50	$62	$48		$244
Accumulated amortization	(51)	(41)	(7)	(26)		(125)
Total	**$33**	**$ 9**	**$55**	**$22**		**$119**
2014						
Equipment under financing obligations	$85	$64	$71	$46	$8	$274
Accumulated amortization	(44)	(46)	(9)	(24)	(3)	(126)
Total	**$41**	**$18**	**$62**	**$22**	**$5**	**$148**

The Medical Centers are making seismic improvements in order to be in compliance with Senate Bill 1953, the Hospital Facilities Seismic Safety Act. Certain facilities and equipment were constructed or acquired to make seismic improvements using financing obligations of the University. These facilities and equipment were contributed at cost by the University to the Medical Centers to support the operations of the Medical Centers. Principal and interest payments required for these obligations are not reflected in the financial statements of the Medical Centers.

Each Medical Center is eligible for $69.2 million and CHRCO is eligible for $172.0 million of grant funding from the Children's Hospital Bond Act of 2004 and 2008 for capital expenditures that support pediatric services. Grant funds are received upon approval of qualifying capital expenditures and are reported as contributions for building programs on the statements of revenues, expenses and changes in net position. CHRCO recorded $28.3 million and $34.1 million in funds from the Children's Hospital Bond Acts for the years ended June 30, 2015 and 2014, respectively.

7. PAYABLES TO UNIVERSITY AND CAMPUS

The UCLA Medical Center has an internal line of credit in the amount of $75.0 million from the UCLA campus Chancellor reported as a note payable to the campus. The line of credit is due in June 2024 and bears interest at the STIP rate of an annual average of 1.6 percent for the year ended June 30, 2015. As of June 30, 2015 and 2014, $75.0 million was outstanding. Effective July 1, 2011, the campus has agreed to waive interest due for an undetermined time period and no interest expense has been recorded on the line of credit for the years ended June 30, 2015 and 2014.

Advances from the University, financed through the University's commercial paper program, were made to the Medical Centers to finance capital projects and refund certain Medical Center Pooled Revenue Bonds. CHRCO received advances from the University to defease long-term debt in June 2014. The advances are due on demand from the Medical Centers when the University refinances the advances into long-term bonds. The advances are due from CHRCO based on a repayment schedule or upon refinancing into long-term bonds, whichever is earlier. Principal payments between $2.2 million and $2.7 million per year until 2038 are due to the University from CHRCO based on the repayment schedule. The payables are reported as other current liabilities by the Medical Centers in the statements of net position. CHRCO reported $2.2 million as other current liabilities and $53.7 million as other noncurrent liabilities as of June 30, 2015. Total advances from the University outstanding as of June 30 are as follows:

(in thousands of dollars)

	PAYABLES TO UNIVERSITY	
	2015	**2014**
Los Angeles	$ 53	$ 78
San Diego	5,468	
CHRCO	55,915	58,120
Total	**$61,436**	**$58,198**

8. INTEREST RATE SWAP AGREEMENTS

As a means to lower the UCLA and UCSF Medical Centers' borrowing costs, when compared against fixed-rate bonds at the time of issuance, the UCLA and UCSF Medical Centers entered into interest rate swap agreements in connection with their variable-rate Medical Center Pooled Revenue Bonds. Under the swap agreements, the Medical Centers pay the swap counterparty a fixed interest rate payment and receive a variable-rate interest payment to effectively change the variable-rate bonds to synthetic fixed-rate bonds. For three of the hedging derivatives, the notional amount of the swap matches the principal amount of the variable-rate Medical Center Pooled Revenue Bonds, and the swap agreement contains scheduled reductions to outstanding notional amounts that match scheduled reductions in the variable-rate bonds. One of the UCLA Medical Center interest rate swaps is a partial hedge, whereby the notional amount of the swap of $25.8 million is less than the amount of bonds outstanding of $31.3 million.

The UCLA Medical Center determined that certain of its interest rate swap agreements were hedging derivatives that hedge future cash flows for its variable-rate Medical Center Pooled Revenue Bonds. At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $41.0 million and $42.1 million at June 30, 2015 and 2014, respectively.

The notional amounts, fair value of the interest rate swaps outstanding and the change in fair value for June 30 are as follows:

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE – POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2015	2014	CLASSIFICATION	2015	2014	CLASSIFICATION	2015	2014
Los Angeles	124,775	124,775	Other noncurrent liabilities	$(40,212)	$(35,966)	Deferred (inflows)/outflows	$(4,246)	$(1,343)
	24,250	24,250	Other noncurrent liabilities	(9,809)	(8,400)	Deferred (inflows)/outflows	(1,409)	(1,671)
	25,750	25,750	Other noncurrent liabilities	(10,755)	(9,155)	Deferred (inflows)/outflows	(1,600)	(1,859)
						Increase (decrease) upon hedge termination		2,610
San Francisco	74,110	77,220	Other noncurrent liabilities	(11,108)	(10,862)	Deferred (inflows)/outflows	(246)	273

Because swap rates have changed since the execution of the swap, financial institutions have estimated the fair value using quoted market prices when available or a forecast of expected discounted future net cash flows. The fair value of the interest rate swap is the estimated amount the Medical Centers would have either (paid) or received if the swap agreement was terminated on June 30, 2015 or 2014.

Additional terms with respect to the outstanding interest rate swaps, classified as hedging derivatives, along with the credit rating of the counterparty, are as follows:

(in thousands of dollars)

TERMS	NOTIONAL AMOUNT		EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	COUNTERPARTY CREDIT RATING
	2015	2014				
LOS ANGELES						
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent	31,610	31,610	2008	2030	None	A3/BBB+
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent	38,670	38,670	2008	2037	None	A3/BBB+
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent	54,495	54,495	2008	2043	None	A3/BBB+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	24,250	24,250	2013	2045	None	A3/BBB+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	25,750	25,750	2013	2047	None	A3/BBB+
SAN FRANCISCO						
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent	74,110	77,220	2007	2032	None	A1/A

** London Interbank Offered Rate (LIBOR)*

Credit Risk. The Medical Centers could be exposed to credit risk if the counterparties to the swap contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The Medical Centers face a maximum possible loss equivalent to the amount of the swap contract's fair value, less any collateral held by the Medical Centers provided by the counterparties. Swap contracts with negative fair values are not exposed to credit risk. Although the Medical Centers have entered into the interest rate swap contracts with creditworthy financial institutions, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value of all of the swap contracts, the University, on behalf of the UCLA Medical Center, may be entitled to receive collateral from the counterparty to the extent that the positive fair value exceeds $15.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $125.0 million or the cash and investments held by all five of the University's Medical Centers fall below $250.0 million.

Interest Rate Risk. There is a risk that the value of the interest rate swaps will decline because of changing interest rates. The values of interest rate swaps with longer maturity dates tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis Risk. There is no basis or tax risk related to two of the swaps classified as hedging derivatives with a total notional amount of $149.0 million since the variable rate the UCLA Medical Center pays to the bond holders matches the variable rate payments received from the swap counterparty.

In connection with one of the UCLA Medical Center swaps, and the UCSF Medical Center swap, there is a risk that the basis for the variable payment received will not match the variable payment on the bonds that expose the UCLA Medical Center and the UCSF Medical Center to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swap is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market, which do not have a similar effect on the taxable market. For example, the swaps expose the UCSF Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 58.0 percent of the 30-day LIBOR, plus 0.48 percent. The swaps expose the UCLA Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 67.0 percent of the three-month LIBOR, plus 0.79 percent.

Termination Risk. There is termination risk for losses on the interest rate swaps classified as hedging derivatives in the event of non-performance by the counterparty in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. For the interest rate swap held by the UCSF Medical Center, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swaps held by the UCLA Medical Center, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB. Upon termination, the Medical Centers may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

9. LONG-TERM DEBT AND FINANCING OBLIGATIONS

The Medical Centers' outstanding debt at June 30 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2015						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	$ 60,979	$ 59,030	$234,540	$ 18,042	$ 41,294	$ 413,885
2007 Series B*					74,110	74,110
2007 Series C-1			6,075			6,075
2007 Series C-2*			149,025			149,025
2008 Series D	220,980					220,980
2009 Series E		52,790	2,680	13,360	1,345	70,175
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620	429,150
2010 Series G & I			12,835	22,500		35,335
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	18,310	5,740	85,170	499,595	525	609,340
2013 Series K*			31,300			31,300
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			44,970			44,970
Financing obligations	17,449	8,634	64,169	42,488		132,740
Other borrowings			41,083			41,083
Total outstanding debt and financing obligations	**317,718**	**282,049**	**815,167**	**706,340**	**836,894**	**2,958,168**
Unamortized bond premium	6,171	3,269	5,660	3,943	642	19,685
Total debt and financing obligations	**323,889**	**285,318**	**820,827**	**710,283**	**837,536**	**2,977,853**
Less: Amounts due within one year	(29,325)	(13,494)	(10,438)	(16,873)	(3,936)	(74,066)
Noncurrent portion of debt and financing obligations	**$294,564**	**$271,824**	**$810,389**	**$693,410**	**$833,600**	**$2,903,787**

** Variable-rate bonds*

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2014							
University of California Medical Center Pooled Revenue Bonds:							
2007 Series A	$ 61,804	$ 59,830	$237,720	$ 18,287	$ 41,854		$ 419,495
2007 Series B*					77,220		77,220
2007 Series C-1			6,485				6,485
2007 Series C-2*			149,025				149,025
2008 Series D	236,545						236,545
2009 Series E		59,220	2,680	13,360	1,435		76,695
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620		429,150
2010 Series G & I			14,415	26,450			40,865
2010 Series H Build America Bonds					700,000		700,000
2013 Series J	19,710	6,405	86,930	500,395	525		613,965
2013 Series K*			31,300				31,300
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			47,265				47,265
Financing obligations	31,440	17,835	64,820	19,260	3,154	$1,198	137,707
Other borrowings			42,152				42,152
Total outstanding debt and financing obligations	**349,499**	**299,145**	**826,112**	**688,107**	**843,808**	**1,198**	**3,007,869**
Unamortized bond premium	6,979	3,424	6,060	4,539	663		21,665
Total debt and financing obligations	**356,478**	**302,569**	**832,172**	**692,646**	**844,471**	**1,198**	**3,029,534**
Less: Amounts due within one year	(32,599)	(17,096)	(11,344)	(14,941)	(6,935)	(1,198)	(84,113)
Noncurrent portion of debt and financing obligations	**$323,879**	**$285,473**	**$820,828**	**$677,705**	**$837,536**		**$2,945,421**

**Variable-rate bonds*

Significant terms of the Medical Centers' outstanding debt are as follows:

	INTEREST RATE	INTEREST PAYMENT FREQUENCY	PRINCIPAL PAYMENT TERMS
University of California Medical Center Pooled Revenue Bonds:			
2007 Series A	4.5 percent to 5.0 percent	Semi-annually	Through 2047
2007 Series B*	0.01 percent	Monthly	Through 2032
2007 Series C-1	4.3 percent to 4.4 percent	Semi-annually	Through 2022
2007 Series C-2*	0.8 percent to 1.0 percent	Quarterly	Through 2045
2008 Series D	4.0 percent to 5.3 percent	Semi-annually	Through 2027
2009 Series E	3.0 percent to 5.5 percent	Semi-annually	Through 2038
2009 Series F Build America Bonds	4.3 percent, after 35 percent federal subsidy	Semi-annually	Through 2049
2010 Series G & I	3.0 percent to 5.8 percent	Semi-annually	Through 2025
2010 Series H Build America Bonds	4.2 percent, after 35 percent federal subsidy	Semi-annually	Through 2048
2013 Series J	3.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K*	0.06 percent	Monthly	Beginning 2045 through 2047
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)	5.0 percent to 5.5 percent	Semi-annually	Through 2039
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 6.0 percent	Monthly, Quarterly	Through 2042

**Variable-rate bonds*

Total interest expense and interest capitalized during the years ended June 30 are as follows:

(in thousands of dollars)

	2015		2014	
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$ 16,884	$ 30	$ 17,918	$ 136
Irvine	15,938	8	16,910	290
Los Angeles	38,619	1,310	40,940	
San Diego	8,064	27,247	7,901	23,788
San Francisco	24,676	26,419	4,685	47,958
CHRCO	71	210	1,444	1,544
Total	**$104,252**	**$55,224**	**$ 89,798**	**$73,716**

The activity with respect to current and noncurrent debt is as follows:

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$325,038	$31,440	$356,478
Principal payments and bond retirements	(17,790)	(13,991)	(31,781)
Amortization of bond premium	(808)		(808)
Long-term debt and financing obligations at June 30, 2015	**306,440**	**17,449**	**323,889**
Less: Current portion of long-term debt and financing obligations	(18,977)	(10,348)	(29,325)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$287,463**	$ **7,101**	**$294,564**
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$320,803	$48,579	$369,382
New obligations	22,375		22,375
Principal payments and bond retirements	(17,295)	(17,139)	(34,434)
Amortization of bond premium	(845)		(845)
Long-term debt and financing obligations at June 30, 2014	**325,038**	**31,440**	**356,478**
Less: Current portion of long-term debt and financing obligations	(18,598)	(14,001)	(32,599)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$306,440**	**$17,439**	**$323,879**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$284,734	$17,835	$302,569
Principal payments and bond retirements	(7,895)	(9,201)	(17,096)
Amortization of bond premium	(155)		(155)
Long-term debt and financing obligations at June 30, 2015	**276,684**	**8,634**	**285,318**
Less: Current portion of long-term debt and financing obligations	(8,230)	(5,264)	(13,494)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$268,454**	**$3,370**	**$271,824**
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$284,932	$29,345	$314,277
New obligations	7,530		7,530
Principal payments and bond retirements	(7,545)	(11,510)	(19,055)
Amortization of bond premium	(183)		(183)
Long-term debt and financing obligations at June 30, 2014	**284,734**	**17,835**	**302,569**
Less: Current portion of long-term debt and financing obligations	(7,895)	(9,201)	(17,096)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$276,839**	**$ 8,634**	**$285,473**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2015				
Long-term debt and financing obligations at June 30, 2014	$725,200	$64,820	$42,152	$832,172
Principal payments and bond retirements	(9,224)	(651)	(1,069)	(10,944)
Amortization of bond premium	(401)			(401)
Long-term debt and financing obligations at June 30, 2015	**715,575**	**64,169**	**41,083**	**820,827**
Less: Current portion of long-term debt and financing obligations	(10,001)	667	(1,104)	(10,438)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$705,574**	**$64,836**	**$39,979**	**$810,389**
Year ended June 30, 2014				
Long-term debt and financing obligations at June 30, 2013	$638,856	$67,312	$29,107	$735,275
New obligations	124,170	632	14,025	138,827
Principal payments and bond retirements	(37,455)	(3,124)	(980)	(41,559)
Amortization of bond premium	(371)			(371)
Long-term debt and financing obligations at June 30, 2014	**725,200**	**64,820**	**42,152**	**832,172**
Less: Current portion of long-term debt and financing obligations	(9,626)	(651)	(1,067)	(11,344)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$715,574**	**$64,169**	**$41,085**	**$820,828**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$673,386	$19,260	$692,646
New obligations		32,970	32,970
Principal payments and bond retirements	(4,995)	(9,742)	(14,737)
Amortization of bond premium	(596)		(596)
Long-term debt and financing obligations at June 30, 2015	**667,795**	**42,488**	**710,283**
Less: Current portion of long-term debt and financing obligations	(5,781)	(11,092)	(16,873)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$662,014**	**$31,396**	**$693,410**
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$177,045	$27,576	$204,621
New obligations	501,702	2,345	504,047
Principal payments and bond retirements	(4,770)	(10,661)	(15,431)
Amortization of bond premium	(591)		(591)
Long-term debt and financing obligations at June 30, 2014	**673,386**	**19,260**	**692,646**
Less: Current portion of long-term debt and financing obligations	(5,591)	(9,350)	(14,941)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$667,795**	**$9,910**	**$677,705**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$841,317	$3,154	$844,471
Principal payments and bond retirements	(3,760)	(3,154)	(6,914)
Amortization of bond premium	(21)		(21)
Long-term debt and financing obligations at June 30, 2015	**837,536**		**837,536**
Less: Current portion of long-term debt and financing obligations	(3,936)		(3,936)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$833,600**		**$833,600**
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$844,433	$46,067	$890,500
New obligations	525		525
Principal payments and bond retirements	(3,620)	(42,913)	(46,533)
Amortization of bond premium	(21)		(21)
Long-term debt and financing obligations at June 30, 2014	**841,317**	**3,154**	**844,471**
Less: Current portion of long-term debt and financing obligations	(3,781)	(3,154)	(6,935)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$837,536**		**$837,536**

(in thousands of dollars)

CHRCO	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2015		
Current portion of long-term debt and financing obligations at June 30, 2014	$1,198	$1,198
Principal payments and bond retirements	(1,198)	(1,198)
Current portion of debt and financing obligations at June 30, 2015		
Year ended June 30, 2014		
Long-term debt and financing obligations at June 30, 2013	$65,736	$65,736
Principal payments and bond retirements	(64,538)	(64,538)
Current portion of debt and financing obligations at June 30, 2014	**$ 1,198**	**$ 1,198**

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2015				
Long-term debt and financing obligations at June 30, 2014	$2,849,675	$137,707	$42,152	$3,029,534
New obligations		32,970		32,970
Principal payments and bond retirements	(43,664)	(37,937)	(1,069)	(82,670)
Amortization of bond premium	(1,981)			(1,981)
Long-term debt and financing obligations at June 30, 2015	**2,804,030**	**132,740**	**41,083**	**2,977,853**
Less: Current portion of long-term debt and financing obligations	(46,925)	(26,037)	(1,104)	(74,066)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$2,757,105**	**$106,703**	**$39,979**	**$2,903,787**
Year ended June 30, 2014				
Long-term debt and financing obligations at June 30, 2013	$2,266,069	$284,615	$ 29,107	$2,579,791
New obligations	656,302	2,977	14,025	673,304
Principal payments and bond retirements	(70,685)	(149,885)	(980)	(221,550)
Amortization of bond premium	(2,011)			(2,011)
Long-term debt and financing obligations at June 30, 2014	**2,849,675**	**137,707**	**42,152**	**3,029,534**
Less: Current portion of long-term debt and financing obligations	(45,491)	(37,555)	(1,067)	(84,113)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$2,804,184**	**$100,152**	**$ 41,085**	**$2,945,421**

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling $649.9 million, including $618.6 million fixed-rate bonds and $31.3 million variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a bond premium of $6.3 million, were used to pay for project construction and issuance cost and to refund $28.3 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $5.1 million and an economic gain of $3.6 million.

CHRCO's long-term debts were defeased or retired with advances from the University's commercial paper program in June 2014.

The Medical Centers' Pooled Revenue Bonds are issued to finance the University's Medical Centers and are collateralized by a joint and several pledge of certain operating and non-operating revenues, as defined in the Indenture, of all five of the University's Medical Centers and CHRCO. The Medical Center Pooled Revenue Bond Indenture requires the Medical Centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and non-operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2015 was $9.7 billion.

The University of California Hospital Revenue Bonds 2004 series have also financed certain improvements at the UCLA Medical Center. The Hospital Revenue Bonds are collateralized solely by revenues of the UCLA Medical Center. In addition, under the bond indentures, the UCLA Medical Center is required to maintain a debt service ratio of 1.1 to 1.0 and has limitations as to additional borrowings and the purchase or sale of assets.

The Medical Center Pooled Revenue Bonds 2007 Series B and 2013 Series K totaling $74.1 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily remarketing. The University has entered into a standby bond purchase agreement if a failed remarketing was to occur and the redemption of any of the 2007 Series B bonds is required. The standby bond purchase agreement is scheduled to terminate on June 30, 2017. The University has not entered into a standby bond purchase agreement for the 2013 Series K bonds. The UCSF and UCLA Medical Centers have access to the hospital working capital program from the University described below for any amounts that would be obligated for repayment to the University.

The Medical Centers' revenues are not pledged for any other purpose than under the indentures for the Medical Center Pooled Revenue Bonds and specific Hospital Revenue Bonds. The pledge of the Medical Centers' revenues under the Medical Center Pooled Revenue Bonds is on parity with interest rate swap agreements and subordinate to the Hospital Revenue Bonds. The Medical Centers' obligations under the terms of the General Revenue Bonds are subordinate to the Medical Center Pooled Revenue Bonds.

The University has an internal working capital program that allows each Medical Center to receive internal advances. Advances may not exceed 60 percent of a Medical Center's accounts receivable for any working capital needs. Interest on any such advance is based upon the earnings rate on the STIP. Repayment of any advances made to the Medical Centers under the working capital program is not collateralized by a pledge of revenues. Currently, there are no advances to the Medical Centers. The University may cancel or change the terms of the working capital program at its sole discretion. However, the University has historically provided working capital advances under informal or formal programs for the Medical Centers.

Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Centers' fixed- and variable-rate debt and net receipts or payments on associated hedging derivative interest rate swaps for each of the five fiscal years subsequent to June 30, 2015, and thereafter, are shown below. Although not a prediction by the Medical Centers of the future interest rate cost of the variable-rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary.

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2016	$ 32,833	$10,522	$ 43,355	$ 28,563	$ 14,792
2017	32,485	6,533	39,018	25,181	13,837
2018	31,595	623	32,218	19,350	12,868
2019	31,204		31,204	19,225	11,979
2020	30,813		30,813	19,824	10,989
2021 – 2025	145,383		145,383	105,681	39,702
2026 – 2030	66,533		66,533	50,765	15,768
2031 – 2035	21,668		21,668	11,415	10,253
2036 – 2040	21,676		21,676	14,315	7,361
2041 – 2045	20,410		20,410	16,620	3,790
2046 – 2050	7,244		7,244	6,779	465
Total future debt service	**441,844**	**17,678**	**459,522**	**$317,718**	**$141,804**
Less: Interest component of future payments	(141,575)	(229)	(141,804)		
Principal portion of future payments	300,269	17,449	317,718		
Adjusted by:					
Unamortized bond premium	6,171		6,171		
Total debt	**$306,440**	**$17,449**	**$323,889**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2016	$ 24,007	$ 5,379	$ 29,386	$ 13,494	$ 15,892
2017	17,039	2,780	19,819	4,325	15,494
2018	16,561	354	16,915	1,519	15,396
2019	16,568	295	16,863	1,536	15,327
2020	19,861		19,861	4,600	15,261
2021 – 2025	99,191		99,191	26,455	72,736
2026 – 2030	97,761		97,761	32,590	65,171
2031 – 2035	94,940		94,940	39,455	55,485
2036 – 2040	91,565		91,565	48,710	42,855
2041 – 2045	86,422		86,422	59,530	26,892
2046 – 2050	57,551		57,551	49,835	7,716
Total future debt service	**621,466**	**8,808**	**630,274**	**$282,049**	**$348,225**
Less: Interest component of future payments	(348,051)	(174)	(348,225)		
Principal portion of future payments	273,415	8,634	282,049		
Adjusted by:					
Unamortized bond premium	3,269		3,269		
Total debt	**$276,684**	**$8,634**	**$285,318**		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2016	$ 45,082	$ 3,202	$ 48,284	$ 8,933	$ 39,351
2017	45,084	3,331	48,415	9,474	38,941
2018	45,096	3,464	48,560	10,075	38,485
2019	45,920	3,602	49,522	11,548	37,974
2020	48,445	3,746	52,191	14,799	37,392
2021 – 2025	230,451	21,103	251,554	75,595	175,959
2026 – 2030	220,698	25,675	246,373	91,237	155,136
2031 – 2035	220,237	31,237	251,474	123,080	128,394
2036 – 2040	217,577	38,005	255,582	163,428	92,154
2041 – 2045	210,482	14,081	224,563	177,510	47,053
2046 – 2050	96,696		96,696	88,405	8,291
Total future debt service	**1,425,768**	**147,446**	**1,573,214**	**$774,084**	**$799,130**
Less: Interest component of future payments	(715,853)	(83,277)	(799,130)		
Principal portion of future payments	709,915	64,169	774,084		
Adjusted by:					
Unamortized bond premium	5,660		5,660		
Other borrowings	41,083		41,083		
Total debt	**$756,658**	**$64,169**	**$ 820,827**		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2016	$ 40,201	$11,578	$ 51,779	$ 16,277	$ 35,502
2017	40,189	9,599	49,788	14,586	35,202
2018	40,178	6,876	47,054	12,215	34,839
2019	40,182	6,876	47,058	12,599	34,459
2020	40,175	6,456	46,631	12,553	34,078
2021 – 2025	208,289	2,608	210,897	44,959	165,938
2026 – 2030	234,173		234,173	85,005	149,168
2031 – 2035	231,591		231,591	107,975	123,616
2036 – 2040	228,202		228,202	137,280	90,922
2041 – 2045	215,627		215,627	165,360	50,267
2046 – 2050	107,377		107,377	97,531	9,846
Total future debt service	**1,426,184**	**43,993**	**1,470,177**	**$706,340**	**$763,837**
Less: Interest component of future payments	(762,332)	(1,505)	(763,837)		
Principal portion of future payments	663,852	42,488	706,340		
Adjusted by:					
Unamortized bond premium	3,943		3,943		
Total debt	**$ 667,795**	**$42,488**	**$710,283**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30				
2016	$ 54,269	$ 54,269	$ 3,915	$ 50,354
2017	54,283	54,283	4,060	50,223
2018	54,303	54,303	4,215	50,088
2019	54,322	54,322	4,375	49,947
2020	54,700	54,700	4,900	49,800
2021 – 2025	341,039	341,039	102,370	238,669
2026 – 2030	332,452	332,452	122,890	209,562
2031 – 2035	303,889	303,889	131,690	172,199
2036 – 2040	277,777	277,777	148,265	129,512
2041 – 2045	260,105	260,105	182,535	77,570
2046 – 2050	144,485	144,485	127,679	16,806
Total future debt service	**1,931,624**	**1,931,624**	**$836,894**	**$1,094,730**
Less: Interest component of future payments	(1,094,730)	(1,094,730)		
Principal portion of future payments	836,894	836,894		
Adjusted by:				
Unamortized bond premium	642	642		
Total debt	**$ 837,536**	**$ 837,536**		

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2016	$ 196,392	$ 30,681	$ 227,073	$ 71,182	$ 155,891
2017	189,080	22,243	211,323	57,626	153,697
2018	187,733	11,317	199,050	47,374	151,676
2019	188,196	10,773	198,969	49,283	149,686
2020	193,994	10,202	204,196	56,676	147,520
2021 – 2025	1,024,353	23,711	1,048,064	355,060	693,004
2026 – 2030	951,617	25,675	977,292	382,487	594,805
2031 – 2035	872,325	31,237	903,562	413,615	489,947
2036 – 2040	836,797	38,005	874,802	511,998	362,804
2041 – 2045	793,046	14,081	807,127	601,555	205,572
2046 – 2050	413,353		413,353	370,229	43,124
2051 – 2055					
Total future debt service	**5,846,886**	**217,925**	**6,064,811**	**$2,917,085**	**$3,147,726**
Less: Interest component of future payments	(3,062,541)	(85,185)	(3,147,726)		
Principal portion of future payments	2,784,345	132,740	2,917,085		
Adjusted by:					
Unamortized bond premium	19,685		19,685		
Other borrowings	41,083		41,083		
Total debt	**$2,845,113**	**$132,740**	**$2,977,853**		

Additional information on the revenue bonds can be obtained from the 2014–2015 annual report of the University of California.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Centers of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2015, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2016		$ 1,343	$ 6,584	$ 7,927
2017		1,339	6,584	7,923
2018		1,339	6,584	7,923
2019		1,339	6,584	7,923
2020		1,343	6,584	7,927
2021 – 2025	$ 10,555	6,608	32,536	49,699
2026 – 2030	21,055	5,874	29,426	56,355
2031 – 2035	26,345	4,852	25,086	56,283
2036 – 2040	37,040	3,573	19,637	60,250
2041 – 2045	60,915	1,397	10,375	72,687
2046 – 2047	24,415	23	595	25,033
Total future debt service	**$180,325**	**$29,030**	**$150,575**	**$359,930**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2016	$ 3,230	$ 7	$ 2,254	$ 5,491
2017	3,340	7	2,149	5,496
2018	3,465	7	2,047	5,519
2019	3,590	6	1,942	5,538
2020	3,725	6	1,837	5,568
2021-2025	20,740	24	7,373	28,137
2026-2030	24,800	13	3,965	28,778
2031-2034	11,220	2	494	11,716
Total future debt service	**$74,110**	**$72**	**$22,061**	**$96,243**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2016	$ 3,230	$ 1,350	$ 8,838	$ 13,418
2017	3,340	1,346	8,733	13,419
2018	3,465	1,346	8,631	13,442
2019	3,590	1,345	8,526	13,461
2020	3,725	1,349	8,421	13,495
2021 – 2025	31,295	6,632	39,909	77,836
2026 – 2030	45,855	5,887	33,391	85,133
2031 – 2035	37,565	4,854	25,580	67,999
2036 – 2040	37,040	3,573	19,637	60,250
2041 – 2045	60,915	1,397	10,375	72,687
2046 – 2047	24,415	23	595	25,033
Total future debt service	**$254,435**	**$29,102**	**$172,636**	**$456,173**

10. OPERATING LEASES

The Medical Centers and CHRCO lease certain buildings and equipment under agreements recorded as operating leases. The terms of the operating leases extend through the year 2045. Operating lease expense for the years ended June 30 were as follows:

(in thousands of dollars)

	2015	2014
Davis	$16,907	$16,149
Irvine	3,408	2,430
Los Angeles	13,294	12,198
San Diego	10,580	9,623
San Francisco	35,921	33,050
CHRCO	4,978	5,217
Total	**$85,088**	**$78,667**

Future minimum payments on operating leases with an initial or non-cancelable term in excess of one year are as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Year ending June 30							
2016	$17,092	$ 2,944	$10,876	$ 9,554	$ 25,606	$3,864	$ 69,936
2017	14,174	2,277	9,738	7,787	24,361	2,965	61,302
2018	12,284	2,254	7,593	6,289	20,263	1,861	50,544
2019	10,568	2,039	6,397	5,055	16,002	1,230	41,291
2020	8,960	679	5,076	4,489	12,925	13	32,142
2021 – 2045	17,972	2,235	16,260	7,514	15,312		59,293
Total	**$81,050**	**$12,428**	**$55,940**	**$40,688**	**$114,469**	**$9,933**	**$314,508**

UC Irvine Medical Center is the tenant of a clinical site leased by its partner in a primary care network affiliation agreement. Under the terms of the affiliation agreement, UC Irvine Medical Center is the owner of and is responsible for meeting the financial obligations under the lease. The lease commenced on November 1, 2014, with an expiration date of March 31, 2025. Future monthly obligations under the lease are $59 and increase 3.0 percent at each anniversary of the commencement date.

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows of resources at June 30 is summarized as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2015							
Pension obligations	$324,808	$162,808	$373,183	$211,728	$440,954	$45,695	$1,559,176
Loss on debt refunding	13,289				898		14,187
Interest rate swap agreements			60,776		11,108		71,884
Total	**$338,097**	**$162,808**	**$433,959**	**$211,728**	**$452,960**	**$45,695**	**$1,645,247**
2014							
Pension obligations	$236,074	$124,238	$276,244	$139,639	$244,731	$ 5,445	$1,026,371
Loss on debt refunding	15,341				994		16,335
Interest rate swap agreements			53,521		10,862		64,383
Total	**$251,415**	**$124,238**	**$329,765**	**$139,639**	**$256,587**	**$5,445**	**$1,107,089**

Deferred inflows of resources for June 30, 2015 and 2014 are related to pension obligations.

12. RETIREE HEALTH PLANS

The University administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The Regents have the authority to establish and amend the benefit plans.

The contribution requirements of the eligible retirees and the participating University locations, such as the Medical Centers, are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the Medical Centers prior to 1990 are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the Medical Centers after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Participating University locations, such as the Medical Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $2.65 and $3.24 per $100 of UCRP covered payroll effective July 1, 2015 and 2014, respectively.

The Medical Centers' contributions for the years ended June 30 were as follows:

(in thousands of dollars)

	2015	2014
Davis	$16,824	$ 19,239
Irvine	8,686	9,963
Los Angeles	19,899	22,225
San Diego	10,307	11,109
San Francisco	22,100	22,876
Total	**$77,816**	**$85,412**

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the University's campuses and Medical Centers using the entry age normal cost method as of July 1, 2014, the date of the latest actuarial valuation, were $65.2 million and $14.1 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position were $50.6 million and $65.2 million at June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, combined contributions from the University's campuses and Medical Centers were $259.2 million and $344.5 million, respectively, including an implicit subsidy of $91.6 million and $85.2 million, respectively. The University's annual retiree health benefit expense for its campuses and Medical Centers was $1.3 billion and $1.2 billion for the years ended June 30, 2015 and 2014, respectively. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and Medical Centers totaling $9.1 billion and $8.2 billion at June 30, 2015 and 2014, respectively, increased by $907.7 million and $872.9 million for the years ended June 30, 2015 and 2014, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and Medical Centers is not readily available. Additional information on the retiree health plans can be obtained from the 2014–2015 annual reports of the University of California.

13. RETIREMENT PLANS

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single-employer defined benefit pension plan, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution pension plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2014-2015 annual reports of the University of California Retirement System.

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

Contributions. Contributions to the UCRP may be made by the Medical Centers and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the Medical Centers and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively. The member contribution rate for employees in the new benefit tier applicable to employees hired on or after July 1, 2013 is 7.0%, and the employer rate is uniform across all members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Contributions were as follows during the years ended June 30:

(in thousands of dollars)

	2015			2014		
	MEDICAL CENTER	**EMPLOYEE**	**TOTAL**	**MEDICAL CENTER**	**EMPLOYEE**	**TOTAL**
Davis	$ 88,693	$ 50,913	$139,606	$ 72,105	$ 39,081	$111,186
Irvine	43,466	24,609	68,075	36,306	19,666	55,972
Los Angeles	98,329	55,665	153,994	79,216	55,945	135,161
San Diego	54,326	30,920	85,246	41,793	22,638	64,431
San Francisco	110,021	63,645	173,666	80,467	36,034	116,501
Total	**$394,835**	**$225,752**	**$620,587**	**$309,887**	**$173,364**	**$483,251**

Additional deposits of $700 million were made by the University to UCRP in July 2014. The Medical Centers reported pension expense and an increase in the pension payable to the University for its portion of these additional deposits based upon their proportionate share of covered compensation for the year ended June 30 is as follows:

(in thousands of dollars)

	2015
Davis	$ 45,579
Irvine	22,385
Los Angeles	50,641
San Diego	27,990
San Francisco	56,500
Total	**$203,095**

Net Pension Liability. The Medical Centers' proportionate share of the net pension liability for UCRP as of June 30 is as follows:

(in thousands of dollars)

	2015		2014	
	Proportion of the net pension liability	Proportionate share of net pension liability	Proportion of the net pension liability	Proportionate share of net pension liability
Davis	6.5%	$ 627,561	6.6%	$ 468,810
Irvine	3.2%	308,211	3.3%	235,813
Los Angeles	7.2%	697,260	7.3%	513,936
San Diego	4.0%	385,387	3.9%	271,458
San Francisco	8.1%	777,948	7.4%	523,452
Total	**29.0%**	**$ 2,796,367**	**28.5%**	**$ 2,013,469**

The Medical Centers' net pension liability was measured as of June 30, 2015 and 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2014 and 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The Medical Centers' net pension liability was calculated using the following methods and assumptions:

(shown as percentage)	2015	2014
Inflation	3.0%	3.5%
Investment rate of return	7.25	7.5
Projected salary increases	3.8 - 6.2	4.3 - 6.8
Cost-of-living adjustments	2.0	2.0

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions were changed in 2015 based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables (separate table for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The actuarial assumptions used in 2014 were based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010. For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with scale AA to 2025, with ages set back two years for males.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

(shown as percentage)	Target allocation	Long-term expected real rate of return
Asset class		
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.8
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return/Hedge Funds/Real Assets	9.5	4.2
Total	**100.0%**	**5.6%**

Discount Rate. The discount rate used to estimate the net pension liability as of June 30, 2015 and 2014 was 7.25 percent and 7.5 percent, respectively. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Medical Center contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Medical Center contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2015 and 2014.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the June 30, 2015 net pension liability of the Medical Center calculated using the June 30, 2015 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Davis	$1,058,199	$ 627,561	$ 276,034
Irvine	519,709	308,211	135,568
Los Angeles	1,175,727	697,260	306,691
San Diego	649,843	385,387	169,513
San Francisco	1,311,784	777,948	342,182
Total	**$4,715,262**	**$2,796,367**	**$1,229,988**

Deferred Outflows of Resources and Deferred Inflows of Resources. Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the years ending June 30:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2015						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 24,229	$ 15,185	$ 39,219	$ 27,141	$ 68,343	$ 174,117
Changes of assumptions or other inputs	183,223	89,986	203,573	112,518	227,131	816,431
Net difference between projected and actual earnings on pension plan investments	117,356	57,637	130,391	72,069	145,480	522,933
Total	**$324,808**	**$162,808**	**$373,183**	**$211,728**	**$440,954**	**$1,513,481**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 12,539	$ 15,724	$ 5,349	$ 15,996	$ 23,520	$ 73,128
Changes of assumptions or other inputs	89,534	43,972	99,476	54,982	110,988	398,952
Net difference between projected and actual earnings on pension plan investments	189,800	93,216	210,880	116,556	235,283	845,735
Difference between expected and actual experience	25,411	12,481	28,235	15,606	31,502	113,235
Total	**$317,284**	**$165,393**	**$343,940**	**$203,140**	**$401,293**	**$1,431,050**
2014						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 32,257	$ 21,719	$ 52,810	$ 21,623	$ 17,159	$ 145,568
Changes of assumptions or other inputs	137,704	69,264	150,958	79,734	153,751	591,411
Net difference between projected and actual earnings on pension plan investments	66,113	33,255	72,476	38,282	73,821	283,947
Total	**$236,074**	**$124,238**	**$276,244**	**$139,639**	**$244,731**	**$1,020,926**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 1,630	$ 4,855	$ 1,317	$ 21,811	$ 30,328	$ 59,941
Changes of assumptions or other inputs	124,517	62,633	136,502	72,100	139,030	534,782
Net difference between projected and actual earnings on pension plan investments	264,893	133,244	290,392	153,383	295,769	1,137,681
Difference between expected and actual experience	27,083	13,624	29,694	15,683	30,239	116,323
Total	**$418,123**	**$214,356**	**$457,905**	**$262,977**	**$495,366**	**$ 1,848,727**

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016	$ 16,415	$ 7,581	$23,796	$10,530	$23,367	$ 81,689
2017	(17,376)	(9,118)	(13,733)	(10,368)	(18,419)	(69,014)
2018	(36,568)	(21,160)	(34,730)	(24,868)	(38,717)	(156,043)
2019	37,987	17,275	45,392	27,220	58,406	186,280
2020	7,066	2,837	8,518	6,074	15,024	39,519
Total	**$ 7,524**	**$ (2,585)**	**$29,243**	**$ 8,588**	**$39,661**	**$ 82,431**

The UCRSP plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403 (b) and 457(b) Plans accept pre-tax employee contributions and the Medical Centers may also make contributions on behalf of certain members of management. Benefits from the Plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Children's Hospital and Research Center Oakland Pension Plan

CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by Union Bank, N.A. (the Trustee). The CHRCO Pension Plan is a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that covers substantially all full-time employees if they work 1,000 hours or more in a twelve-month eligibility period.

The net pension liability for the plan was calculated based upon the following assumptions as of June 30, 2015: 3.0 percent inflation, 7.0 percent investment rate of return, 3.5 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. The net pension liability for the plan was calculated based upon the following assumptions as of June 30, 2014: 3.0 percent inflation, 7.2 percent investment rate of return, 3.5 percent projected salary increases and no cost-of-living adjustments.

Condensed financial information for the CHRCO Pension Plan as of and for the years ended June 30, 2015 and 2014 are as follows:

(in thousands of dollars)	Children's Hospital & Research Center Oakland Pension Plan	
	2015	**2014**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION		
Investments at fair value	$340,557	$320,064
Total assets	**340,557**	**320,064**
Net position held in trust	**$340,557**	**$320,064**
CONDENSED STATEMENT OF CHANGES IN PLAN'S FIDUCIARY NET POSITION		
Contributions	$ 18,000	$ 14,500
Investment and other income, net	11,797	48,704
Total additions	**29,797**	**63,204**
Benefit payment and participant withdrawals	8,082	6,994
Plan expense	1,222	718
Total deductions	**9,304**	**7,712**
Increase in net position held in trust	**20,493**	**55,492**
Net position held in trust		
Beginning of year	320,064	264,572
End of year	**$340,557**	**$320,064**
CHANGES IN TOTAL PENSION LIABILITY		
Service cost	$ 9,448	$ 9,274
Interest	24,683	22,453
Difference between expected and actual experience	762	2,487
Changes of benefit terms	40	142
Changes of assumptions or other inputs	33,105	
Benefits paid, including refunds of employee contributions	(8,082)	(6,994)
Net change in total pension liability	**59,956**	**27,362**
Total pension liability		
Beginning of year	331,276	303,914
End of year	**$391,232**	**$331,276**
Net pension liability, end of year	**$50,675**	**$11,212**

Membership in the CHRCO Plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	737
Inactive members entitled to, but not yet receiving benefits	1,057
Active members	1,976
Total membership	**3,770**

Contributions

Employer contributions for the CHRCO Plan are determined under IRC Section 430. Employees are not required or permitted to contribute to the plan.

Net Pension Liability

The net pension liability for CHRCO was measured as of June 30, 2015, and the total pension liability was determined by an actuarial valuation as of January 1, 2015 updated to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an experience review conducted during FY 2015. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class for the CHRCO Plan are as follows:

	PORTFOLIO PERCENTAGE	PROJECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	59.5%	5.4%
Developed International Equity	8.2%	5.9%
Emerging Market Equity	7.7%	9.5%
Core Fixed Income	24.6%	1.5%
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent and 7.25 percent for June 30, 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumes that CHRCO will make contributions to the plan under IRC Section 430 minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the CHRCO plan fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2015 discount rate assumption of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.0%)	CURRENT ASSUMPTION (7.0%)	1% INCREASE (8.0%)
Net pension liability	$108,478	$50,675	$3,162

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, deferred outflows of resources and deferred inflows of resources were as follows:

(in thousands of dollars)	2015	2014
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$ 4,720	$5,445
Changes of benefit terms	317	
Changes of assumptions	30,373	
Net difference between projected and actual earnings on pension plan investments	10,285	
Total	**$45,695**	**$5,445**
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments	$22,319	$30,653
Total	**$22,319**	**$30,653**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

(in thousands of dollars)	
Year Ending June 30	
2016	$ 785
2017	785
2018	3,470
2019	8,783
2020	6,423
Thereafter	3,130
Total	**$23,376**

14. SELF-INSURANCE

The Medical Centers are insured through the University's malpractice, general liability, workers' compensation, and health and welfare self-insurance programs. All operating departments of the University are charged premiums to finance the workers' compensation and health and welfare programs. The University's Medical Centers are charged premiums to finance the malpractice insurance. All claims and related expenses are paid from the University's self-insurance funds. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by an independent insurer.

Malpractice and general liability premiums are recorded as insurance expenses in the statements of revenues, expenses and changes in net position. Workers' compensation premiums, net of refunds, included as retiree health and other employee benefits in the statements of revenues, expenses and changes in net position for the years ended June 30 were as follows:

(in thousands of dollars)		
	2015	**2014**
Davis	$ 7,115	$ 6,270
Irvine	7,400	6,584
Los Angeles	15,427	13,339
San Diego	7,491	6,288
San Francisco	14,227	11,403
Total	**$51,660**	**$43,884**

CHRCO's liabilities for medical malpractice, workers' compensation and health care claims changed as follows:

(in thousands of dollars)	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2015				
Balance at June 30, 2014	$4,619	$ 9,341	$2,131	$ 16,091
Claims incurred and changes in estimates	562	5,337	9,359	15,258
Claim payments	(754)	(3,481)	(8,968)	(13,203)
Liabilities at June 30, 2015	**$4,427**	**$11,197**	**$2,522**	**$18,146**
Discount rate	5.0%	5.0%	Undiscounted	
Year Ended June 30, 2014				
Balance at June 30, 2013	$4,078	$7,523	$ 1,872	$13,473
Claims incurred and changes in estimates	700	4,113	10,247	15,060
Claim payments	(159)	(2,295)	(9,988)	(12,442)
Liabilities at June 30, 2014	**$4,619**	**$9,341**	**$ 2,131**	**$16,091**
Discount rate	5.0%	5.0%	Undiscounted	
Year Ended June 30, 2013				
Balance at June 30, 2012	$4,050	$5,229	$ 2,077	$11,356
Claims incurred and changes in estimates	244	4,993	9,919	15,156
Claim payments	(216)	(2,699)	(10,124)	(13,039)
Liabilities at June 30, 2013	**$4,078**	**$7,523**	**$ 1,872**	**$13,473**
Discount rate	5.0%	5.0%	Undiscounted	

CHRCO has two irrevocable letters of credit with a bank totaling $10.5 million as of June 30, 2015, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2015.

15. TRANSACTIONS WITH OTHER UNIVERSITY ENTITIES

Services purchased from the University include office and medical supplies, building maintenance, repairs and maintenance, administrative, treasury, medical services and insurance. Services provided to the University include physician office rentals, pharmaceuticals, billing services, medical supplies and cafeteria services. Such amounts are netted and reported as operating expenses in the statements of revenues, expenses and changes in net position for the years ended June 30 are as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2015							
Professional services	$51,446	$ 4,536	$ 4,379	$47,151		$ 1,683	$109,195
Insurance	8,852	5,061	11,550	7,829	$ 6,631		39,923
Salaries and employee benefits	7,115			29,490	2,248	4,100	42,953
Other supplies and purchased services	10,910	35,340	70,623	(7,318)	487,966	6,156	603,677
Administrative costs		(4,339)					(4,339)
Medical supplies			(9,805)	(1,487)	(1,117)	196	(12,213)
Interest (income) expense, net	(4,126)	3,575	(13,599)	(3,765)	(10,397)		(28,312)
Total	**$74,197**	**$44,173**	**$63,148**	**$71,900**	**$485,331**	**$12,135**	**$750,884**
2014							
Professional services	$52,324	$ 4,717	$ 4,726	$44,336		$1,616	$107,719
Insurance	8,545	4,158	11,334	6,040	$ 6,638	1,469	38,184
Salaries and employee benefits	6,270			24,522	2,489		33,281
Other supplies and purchased services	10,288	30,610	71,697	(8,023)	449,390	4,985	558,947
Administrative costs		(4,339)				7	(4,332)
Medical supplies			(6,478)	(1,314)	(3,211)		(11,003)
Interest (income) expense, net	(4,102)	(3,137)	(11,376)	(2,656)	(12,572)		(33,843)
Total	**$73,325**	**$32,009**	**$69,903**	**$62,905**	**$442,734**	**$8,077**	**$688,953**

Additionally, the Medical Centers make payments to the Schools of Medicine. Services purchased from the Schools of Medicine include physician services that benefit the Medical Centers, such as emergency room coverage, physicians providing medical direction to the Medical Centers and the Medical Centers' allocation of malpractice insurance. Such expenses are reported as operating expenses in the statements of revenue, expenses and changes in net position. Health system support includes amounts paid to the Schools of Medicine by the Medical Centers to fund the operating activities, clinical research, the faculty practice plans, as well as other payments made to support various programs.

The payments made by the Medical Centers and CHRCO for the years ended June 30 were as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2015							
Reported as operating expenses	$ 74,197	$ 44,173	$ 63,148	$ 71,900	$ 485,331	$ 12,135	$ 750,884
Reported as health system support	32,323	60,899	130,170	100,651	73,813	2,437	400,293
Total payments to the University	**$106,520**	**$105,072**	**$193,318**	**$172,551**	**$559,144**	**$14,572**	**$1,151,177**
2014							
Reported as operating expenses	$ 73,325	$32,009	$ 69,903	$ 62,905	$442,734	$8,077	$ 688,953
Reported as health system support	38,256	60,386	117,082	57,007	61,279		334,010
Total payments to the University	**$111,581**	**$92,395**	**$186,985**	**$119,912**	**$504,013**	**$8,077**	**$1,022,963**

16. COMMITMENTS AND CONTINGENCIES

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to periodic governmental review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time.

The Medical Centers and CHRCO are contingently liable in connection with certain claims and contracts, including those currently in litigation, arising out of the normal course of its activities. Management and General Counsel are of the opinion that the outcome of such matters will not have a material effect on the Medical Centers' and CHRCO's financial statements.

The Medical Centers and CHRCO have entered into various construction contracts. The remaining cost of these Medical Center and CHRCO projects, excluding interest, as of June 30, 2015 are estimated to be approximately:

(in thousands of dollars)	
Davis	$ 31,354
Los Angeles	5,312
San Diego	231,015
San Francisco	104,166
CHRCO	63,599
Total	$435,446

Davis has entered into a long term lease arrangement totaling $49.0 million over the next 15 years.

As of June 30, 2015, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 1.4 percent as of June 30, 2015 and the facility expires on August 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

The schedule of the Medical Centers' proportionate share of UCRP's net pension liability is presented below:

(in thousands of dollars)

As of June 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered-employee payroll	Proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
DAVIS					
2015	6.5%	$627,561	$635,120	98.8%	82.9%
2014	6.6%	468,810	$603,824	77.6%	86.3%
2013	6.5%	690,989	563,695	122.6%	78.3%
2012	6.3%	880,516	522,988	168.4%	71.3%
2011	6.0%	426,833	473,978	90.1%	83.0%
IRVINE					
2015	3.2%	$308,211	$311,924	98.8%	82.9%
2014	3.3%	235,813	303,726	77.6%	86.3%
2013	3.3%	345,341	281,722	122.6%	78.3%
2012	3.3%	466,849	277,288	168.4%	71.3%
2011	2.9%	206,762	229,599	90.1%	83.0%
LOS ANGELES					
2015	7.2%	$697,260	$705,659	98.8%	82.9%
2014	7.3%	513,936	661,946	77.6%	86.3%
2013	7.0%	739,451	603,229	122.6%	78.3%
2012	6.6%	928,298	551,368	168.4%	71.3%
2011	6.4%	452,930	502,958	90.1%	83.0%
SAN DIEGO					
2015	4.0%	$385,387	$390,029	98.8%	82.9%
2014	3.9%	271,458	349,636	77.6%	86.3%
2013	3.8%	405,012	330,401	122.6%	78.3%
2012	4.2%	587,011	348,659	168.4%	71.3%
2011	3.6%	257,198	285,607	90.1%	83.0%
SAN FRANCISCO					
2015	8.1%	$777,948	$787,319	98.8%	82.9%
2014	7.4%	523,452	674,202	77.6%	86.3%
2013	7.8%	822,056	670,617	122.6%	78.3%
2012	7.5%	1,044,811	620,572	168.4%	71.3%
2011	7.5%	528,273	586,622	90.1%	83.0%
TOTAL					
2015	29.0%	$2,796,367	$2,830,051	98.8%	82.9%
2014	28.5%	2,013,469	2,593,334	77.6%	86.3%
2013	28.4%	3,002,849	2,449,664	122.6%	78.3%
2012	27.9%	3,907,485	2,320,875	168.4%	71.3%
2011	26.4%	1,871,996	2,078,764	90.1%	83.0%

REQUIRED SUPPLEMENTARY INFORMATION

CHRCO

The schedule of changes in the net pension liability for the CHRCO Pension Plan for the years ended June 30 is as follows:

(in thousands of dollars)	**2015**	**2014**
TOTAL PENSION LIABILITY		
Service cost	$ 9,448	$ 9,274
Interest on the total pension liability	24,683	22,453
Changes of benefit terms	40	142
Difference between expected and actual experience	762	2,487
Changes of assumptions or other inputs	33,105	
Benefits paid, including refunds of employee contributions	(8,082)	(6,994)
Other changes		
Net change in total pension liability	**59,956**	**27,362**
Total pension liability - beginning of year	331,276	303,914
Total pension liability - end of year	**391,232**	**331,276**
PLAN NET POSITION		
Contributions - employer	18,000	14,500
Contributions - member		
Net investment income	11,797	48,704
Benefits paid, including refunds of employee contributions	(8,082)	(6,994)
Administrative expense	(1,222)	(718)
Other changes		
Net change in plan net position	**20,493**	**55,492**
Total plan net position - beginning of year	320,064	264,572
Total plan net position - end of year	340,557	320,064
Net pension liability - end of year	**$ 50,675**	**$ 11,212**

The schedule of net pension liability for the CHRCO Pension Plan as of June 30 is:

(in thousands of dollars)	**2015**	**2014**
Total pension liability	$391,232	$331,276
Plan net position	340,557	320,064
Net pension liability	**$ 50,675**	**$ 11,212**
Ratio of plan net position to total pension liability	87.0%	96.6%
Covered-employee payroll	$177,986	$175,189
Net pension liability as a percentage of covered-employee payroll	28.5%	6.4%

The schedule of employer contributions for the CHRCO Pension Plan for the years ended June 30 is:

(in thousands of dollars)	**2015**	**2014**
Actuarially calculated employer contributions	$12,200	$21,300
Contributions in relation to the actuarially calculated employer contribution	18,000	14,500
Annual contribution (excess) deficiency	**$(5,800)**	**$ 6,800**
Covered-employee payroll	$177,986	$175,189
Actual contributions as a percentage of covered-employee payroll	10.1%	8.3%

Notes to Schedule

Valuation date:

Actuarially calculated contributions are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarially determined contribution	The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances. For the period January 1, 2014 to June 30, 2014, the amount shown does not reflect changes in the Highway and Transportation Funding Act of 2014 (HATFA). The contribution for July 1, 2014 to June 30, 2015 includes HATFA.
Contributions in relation to the actuarially determined contribution	The amount shown is equal to the contributions contributed to the Plan during the fiscal year shown.
Actuarial cost method	Unit Credit Actuarial Cost Method.
Amortization method	Level dollar, closed amortization.
Remaining amortization period	Seven years for changes in unfunded liabilities that occur each valuation date.
Asset valuation method	The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior years' adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430.
Inflation	3.00%.
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation.
Projected salary increases	3.5%, including inflation through 2017, 4% afterward.
Mortality	RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

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University of California
Office of the President
1111 Franklin Street
Oakland, CA 94607

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